National Foreclosure Mitigation Counseling Program Evaluation

Final Report
Rounds 1 and 2

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EXECUTIVE SUMMARY

The National Foreclosure Mitigation Counseling (NFMC) program is a special federal appropriation, administered by NeighborWorks® (NW) America, to support a rapid expansion of foreclosure intervention counseling in response to the nationwide foreclosure crisis. As this is a federal appropriation, NW America must inform Congress and other entities of the NFMC program's progress. The Urban Institute (UI) was selected by NW America to evaluate the NFMC program.

This report presents the final results from UI's evaluation of the first two rounds of the NFMC program (people receiving counseling in 2008 and 2009), including a detailed analysis of program outcomes first described in preliminary reports of November 2009 (Mayer et al.) and December 2010 (Mayer et al.). According to those reports, homeowners receiving NFMC counseling avoided entering foreclosure, successfully cured existing foreclosures, and obtained more favorable loan modifications.

This report updates previous analyses and also includes revised models of several homeowner outcomes for NFMC clients counseled in 2008 and 2009. These new models use an improved comparison sample selection design, which addressed potential issues raised by reviewers of earlier analyses, and a better method for controlling for possible selection bias in the NFMC sample. The additional analyses in this report include models of non-modification cures, non-modification redefaults, and foreclosures avoided.

Modeling Findings

The multivariate statistical analyses are based on a sample of close to 335,000 loans and answer the following four questions about the NFMC program's performance:

- Did the NFMC program help homeowners receive loan modifications with lower monthly payments than homeowners would have otherwise received without counseling?
- For homeowners that cured (i.e., brought to current) a serious delinquency or foreclosure through a loan modification or some other means, did NFMC counseling help them remain current on their loans longer and more frequently than they would have been without counseling?

- For borrowers with seriously troubled loans, did NFMC counseling increase their chances of obtaining a cure and then sustaining that cure and avoiding redefault?
- Did the NFMC program help reduce the number of completed foreclosures?[1]

The first three questions were examined in previous preliminary analyses of the NFMC program, although the questions of whether homeowners were more likely to remain current on their loans or cure serious delinquencies or foreclosures were looked at only in the context of loan modification cures. This final report expands the sustainability and cure analyses to include borrower self-cures not involving a loan modification. The fourth question, how the NFMC program influenced foreclosure completions, is evaluated for the first time here.

In addition, this report includes analyses that test whether NFMC program effects changed over two very different periods during this evaluation. The first is the period before the start of the Home Affordable Modification Program (HAMP), January 2008 through March 2009; the second is the period beginning in April 2009, when HAMP first became available. These analyses were meant to determine whether HAMP affected counseling impacts, either positively or negatively.

According to the evaluation of round 1 and 2 NFMC program effects, the answer to each of the four outcome questions above is "yes," as summarized in table ES-1. In many cases, the program effects are very substantial. Further, NFMC counseling retained, or even increased, its effectiveness in helping troubled homeowners after HAMP began.

[1] This analysis replaces previous models of foreclosure cures that measured the NFMC program's effect on the likelihood of a loan being taken out of the foreclosure process without going to a forced sale. That earlier analysis did not address whether the loan permanently avoided a foreclosure sale. Measuring whether a foreclosure is completed better indicates the program's impact on helping owners avoid losing their homes.

Table ES-1: NFMC Program Impacts on Mortgage Outcomes

	Pre-HAMP	**Post-HAMP**
Average additional reduction in monthly payment from loan modification	$176	$176
Reduction in redefault rate nine months after curing a serious delinquency[a] or foreclosure		
Loan modification cures	67 percent	70 percent
Non-modification cures	49 percent	32 percent
Change in relative odds of curing a serious delinquency[a] or foreclosure		
Loan modification cures	89 percent higher	97 percent higher
Non-modification cures	32 percent lower	32 percent lower
Percentage of loans in serious delinquency or foreclosure both curing and sustaining cures	2.5 times higher	1.6 times higher
Reduction in foreclosure completions	No effect	36 percent

[a] Serious delinquency is three or more months of missed payments.

Loan Modifications

NFMC clients that had their loans modified in 2008 and 2009 and received counseling assistance paid $176 a month less, on average, than non-counseled clients that also received loan modifications. This average payment was 7.8 percent less than it would have been without counseling and translated into an annual savings of about $2,100 per counseled homeowner. The ability of counseling to obtain lower monthly payments for clients was the same both before and after the start of HAMP, indicating that counseling retained its positive benefits even with the existence of HAMP loan modification guidelines.

This average additional payment reduction of $176 is about $90 lower than the NFMC program effect reported in December 2010's preliminary study. The final, lower estimate was based on models that included loan records missing information on a borrower's debt-to-income (DTI) ratio and credit score at loan origination, which had been dropped from previous modeling analyses. While removing observations with incomplete data is standard practice, omitting those loans biased upward the estimated effects of the NFMC program on payment reductions from loan modifications.[2] To avoid this problem, the DTI and credit score variables were transformed into categorical data, which included a "missing" category so all loans could be included in the

[2] Loans with missing DTI ratios or credit scores were likewise included in the analysis of the other program outcomes discussed in this report.

model estimations. Retaining these loans significantly affected the final results because (1) they accounted for a large share of the total loans (about 40 percent) and (2) borrowers without reported credit scores or DTI ratios received, on average, loan modifications with lower payment reductions.

Sustainability of Modification Cures

The combined effect of counseling from both a larger payment reduction and other counseling assistance substantially reduced the relative odds that borrowers would redefault after receiving loan modifications bringing seriously delinquent mortgages (those with three or more months of missed payments) or foreclosures back to current status. Translated into percentage terms, counseling lowered redefault rates after a modification cure of a typical loan by 67 percent or more.

Although a small part of this effect (about a 3.5 percent decrease in the relative odds of redefault) was attributable to counseling's effect on the size of monthly payment reductions, the great bulk of the sustainability benefit resulted from other impacts of counseling, such as helping borrowers improve their financial management skills, assisting them in managing relationships with servicers and investors, and providing other types of support. Nonetheless, although very few modifications included this feature, the relative odds of redefault were reduced by an additional 20 percent when the loan modification curing a serious delinquency or foreclosure included principal reduction.

Both before and after HAMP, redefault was a major problem for homeowners who did not receive counseling but a far reduced problem for borrowers who obtained NFMC counseling support. The impacts of counseling on sustainability differed very little before and after the start of HAMP, with counseling reducing the relative odds of redefault by 78 and 74 percent, respectively. The effect of reducing loan payments through modifications was miniscule in both periods, with the other effects of counseling decreasing the relative odds of redefault by 77 percent before HAMP and 73 percent after HAMP. In percentage terms, the rate of redefault nine months after the modification cure was reduced by 67 percent pre-HAMP and 70 percent post-HAMP. Finally, the combination of the two federal interventions (NFMC counseling and the implementation of HAMP) lowered redefault rates for borrowers curing loans through modifications from 66 to 11 percent (an impressive 83 percent reduction) over the course of nine months for a typical counseled loan.

Sustainability of Non-Modification Cures

NFMC counseling also increased sustainability substantially for loans cured *without* a loan modification. Though the sustainability effect was somewhat smaller than for counseling and cures with modifications, the impacts were still large for a single program intervention. Overall, counseling reduced the relative odds of redefault for non-modification cures of loans in serious delinquency or foreclosure by about half. The counseling impact was larger before

HAMP than after but still substantial in both periods. Before HAMP, counseling reduced the relative odds of redefault after a non-modification cure by 66 percent. After the start of HAMP, the relative odds of redefault for counseled borrowers were 39 percent lower than for non-counseled borrowers.

Measured by the probability of redefault, in the pre-HAMP period, counseling lowered the redefault rate for a typical NFMC-counseled loan cured without a loan modification from 71 to 36 percent, or 49 percent, over nine months. For non-modification cures obtained once HAMP was in place, borrowers that received counseling had a cumulative redefault rate of 26 percent after nine months, compared with 38 percent for those without counseling, meaning that counseling lowered recidivism for these cures by nearly 32 percent.

Modification Cures

In addition to increasing the sustainability of cures, NFMC counseling improved client outcomes by increasing the likelihood that a borrower would bring a loan in serious delinquency or foreclosure back to current status. NFMC counseling came close to doubling the odds of modification cures compared with those for non-counseled borrowers. For those entering counseling before HAMP, the relative odds of obtaining a modification cure from a serious delinquency or foreclosure increased by 89 percent, compared to the odds without counseling assistance; after HAMP, the odds increased by 97 percent.

Translating these relative odds to cumulative percentages of modification cures, after 12 months (the average observation period for loans after they became troubled), 8 percent of homeowners before HAMP receiving counseling assistance had modification cures, compared with 5 percent among borrowers without counseling—a 60 percent increase with counseling. After HAMP, 17 percent of homeowners with counseling assistance cured their serious delinquencies or foreclosures after 12 months, compared with 9 percent without counseling—an 88 percent increase attributable to counseling.

Non-Modification Cures

The impacts of counseling on non-modification cures were very different from those for modification cures. Counseling assistance was associated with *fewer* non-modification cures, overall and at all counseling levels. The relative odds of a non-modification cure decreased over 30 percent for counseled loans both before and after HAMP. A likely interpretation of this finding is that some people who would have obtained non-modification cures without counseling were, with counseling, able to obtain cures with modifications instead. This shift reduced non-modification cures for people with counseling. The effect was especially strong once HAMP modifications became available (and set standards for other modifications), particularly among people who received more counseling, which was often needed to bring about successful modifications (according to the observers we interviewed).

Achieving and Sustaining Cures

A crucial outcome for borrowers is curing loans in serious delinquency or foreclosure combined with sustaining those cures (i.e., avoiding redefault). When the results of the sustainability and cure analyses are synthesized, they demonstrate that NFMC counseling nearly doubled the rate of curing and sustaining troubled loans. Among counseled borrowers, 12.7 percent of seriously delinquent or foreclosed loans were cured and sustained without redefault, compared with only 6.5 percent among non-counseled borrowers' loans—a ratio of 1.96.

The ratio of counseled to non-counseled cure-and-sustain rates was higher before HAMP (2.5), but even after HAMP was under way, NFMC counseling boosted the rate of sustained cures by 1.6 times. Counseling in both periods helped people become current on their loans and stay that way. NFMC counseling and the HAMP environment together raised the rate of sustained cures by a factor of five, compared with results achieved without counseling assistance before HAMP.

Although many homeowners that cured their serious delinquency or foreclosure stayed current, particularly those who received loan modifications through counseling, cures were generally very limited. Because of its opposite and thus partially offsetting effects on modification cures and non-modification cures, counseling affected total cures of seriously delinquent and foreclosed loans relatively modestly. In the post-HAMP period, even with counseling, modification plus non-modification cures totaled only 24 percent of significantly troubled loans. Therefore, while counseling and HAMP help homeowners in a number of ways, many homeowners' problems persist.

Avoiding Foreclosure Completions and Cost-Benefit Analysis

According to the previous analyses, NFMC counseling had several benefits: it generated loan modifications with larger payment reductions, it helped homeowners cure seriously delinquent loans, and it produced more sustainable cures. To determine if these effects helped clients remain in their homes, the latest analyses estimated the impact of counseling on the likelihood of foreclosure completion, which would result in the homeowner losing his or her home.

Between January 2008 and December 2010, 10.3 percent of round 1 and 2 NFMC clients had a foreclosure completion.[3] Without counseling, this percentage would have been 1.15 times as great. Extrapolating the modeling results from the estimation sample to all clients who received counseling in rounds 1 and 2, the NFMC program resulted in 13,000 fewer foreclosure completions by the end of 2010. In other words, the NFMC program prevented

[3] Foreclosure completion includes foreclosure sale, short sale, and other involuntary losses of a home through foreclosure-related actions.

nearly one in seven foreclosures that would have been completed without counseling. These results were driven by NFMC performance after HAMP, which reduced the total number of foreclosure completions by 36 percent. Before HAMP, there was no statistically measurable difference in foreclosure completion rates between counseled and non-counseled borrowers.

Since foreclosure sales create costs for homeowners, lenders, local governments, and society at large, avoiding foreclosures generates cost savings. Each foreclosure prevented by the NFMC program was estimated to have saved an average of $70,600 in avoided costs. These savings included $10,000 in moving costs, legal fees, and administrative charges for homeowners; $40,500 in deadweight lender loss to society, which represents 36 percent of the total lender loss; $6,500 in local government administrative and legal costs; and $13,900 in reduced neighboring property values.[4]

Assuming the 13,000 loans that avoided foreclosure through December 2010 because of counseling do not complete foreclosure at some point in the future, the NFMC program has helped save local governments, lenders, and homeowners *$920 million*, which is about $1,200 per client served by the NFMC program in 2008 and 2009. These savings translated to 3.0 times the total round 1 and 2 NFMC funding provided to support counseling services to these homeowners. When the full costs of providing counseling services to these clients, including funding from other sources, is accounted for, the savings represented a total counseling cost-benefit ratio of 2.4.

Findings and Lessons from the NFMC Program

This evaluation looked comprehensively at the NFMC program, its effects on improving outcomes for troubled homeowners, and its broader impact on foreclosures. The NFMC program made key contributions to addressing the foreclosure crisis in four main areas, which are summarized below.

Improving Outcomes for Troubled Homeowners

The ultimate measure of success of the NFMC program was whether the assistance provided by NFMC-funded Grantees and Subgrantees actually helped troubled homeowners achieve better outcomes, such as avoiding a foreclosure sale or obtaining a mortgage modification that allowed them to remain in their homes. Determining whether the program helped homeowners attain positive outcomes, therefore, was the main focus of the NFMC evaluation.

As noted in the summary of the modeling findings above, the analysis of NFMC's activities and the subsequent performance of counseled and non-counseled mortgages found

[4] See pages 98–101 of the main report for further details on the derivation of these cost figures.

consistent, compelling, and robust evidence that the program has provided substantial benefits to homeowners facing foreclosure. In almost all cases, counseling has remained effective in obtaining positive outcomes, even after the Home Affordable Modification Program was introduced in April 2009.

Building National Capacity for Foreclosure Mitigation Counseling

The NFMC program also helped increase the nation's capacity to assist troubled homeowners in several ways. First, and perhaps most important, by providing more funds to counseling organizations, the program increased national capacity to provide foreclosure counseling services. Based on the responses from two web-based surveys (included in appendices D and E), Round 1 NFMC program Grantees and Subgrantees saw nearly three times more clients between 2007 and 2008; round 2 Grantees and Subgrantees saw 76 percent more. Many NFMC-funded Grantees and Subgrantees also enlarged their geographic area of coverage.

In addition, the NFMC program helped build the national capacity of foreclosure mitigation counseling by improving counselor training[5] and by establishing a members' web site and message board that has allowed counselors to share questions, best practices, and other information across a national network.

Challenges and Best Practices

As this report is being written, millions of homeowners in the United States are still facing the possibility of foreclosure and the loss of their homes. Counseling organizations across the country are still working with many of these homeowners to allow them to avoid foreclosure and, hopefully, keep their homes. Through the course of the NFMC program evaluation, researchers gathered extensive information from counseling agencies, through web surveys and interviews, on the challenges of obtaining good outcomes for their clients. This information has uncovered many strategies and best practices that the more successful counseling organizations have employed, providing valuable lessons for the housing counseling field.

Grantees and Subgrantees interviewed as case studies for the evaluation identified the two largest problems in achieving good outcomes for clients: (1) servicers were not sufficiently responsive and (2) clients, when entering counseling, were typically facing financial difficulties usually resulting from a loss in income. Successful counseling organizations have developed strategies to attempt to overcome these two main issues and to interact with clients so good outcomes are maximized.

[5] The NFMC legislation specifically authorized a portion of the appropriation to be spent to "build the mortgage foreclosure and default mitigation counseling capacity of counseling intermediaries through [NW America] training courses" (Housing and Economic Recovery Act of 2008).

Increasing servicer responsiveness

Counseling staff cited obtaining good servicer response to client efforts to resolve troubled loans more frequently than any other challenges and obstacles in their work (although by only a narrow margin over borrowers' loss of income). Staff most frequently mentioned three challenges as severe: slow response or lack of response by servicers to applications for loan modifications, servicers losing documents submitted, and servicers switching clients' cases from one staff person to another.

According to our case study interviews, successful counseling agencies responded to challenges in working with servicers in five ways.

- *Reducing the chaos and delay from lost documents.* Difficulties transmitting the necessary documents for loan modifications and other solutions, confirming their receipt, avoiding their loss at the servicer end, and identifying missing documents so they can be re-submitted have been a major obstacle to effective foreclosure prevention. In nearly every case, well-performing counseling agencies have invested substantially in addressing this issue, including adopting HOPE LoanPort™ or their own electronic systems for tracking documents and negotiation.
- *Developing contacts and relationships with servicers and learning whom to go to for cooperation, escalation, and quick response.* Successful counseling organizations consider building contacts and relationships with servicers crucial. Organizations need to know the right people to call for cooperative problem-solving, finding non-foreclosure solutions, and moving stuck cases forward.
- *Knowing how servicers are likely to assess a proposed modification, forbearance, or other proposal.* Assessing what servicers will approve and creating proposals that work for the client and the servicer are important counselor goals. Some counselors focus on getting there with their initial proposal; others anticipate frequent negotiation. In both cases, a key ingredient is a counselor who understands how underwriting works so he or she can provide realistic options that the servicer will entertain.
- *Following up persistently.* Counselor persistence is central to many aspects of preventing foreclosure, including submitting applications and proposals to servicers, monitoring progress, and pursuing solutions that work for their clients. But persistence also includes negotiating solutions creatively. Successful counselors never take "no" for an answer, if analysis suggests that preventing or mitigating a foreclosure is at all feasible.
- *Structuring single-servicer events, live contact between servicers and clients, and live contact between servicers and counselors.* Direct in-person contact between

servicers and counselors and homeowners can be valuable, if structured properly. The key is to put together the necessary pieces for actual loan modifications and other solutions to be reached *on site, during the event*.

Dealing with major income reductions

Counselors indicated that most clients seek foreclosure prevention services because of a drop in income, often from a job loss. Although such cases are difficult to address, counselors use several strategies when working with clients with an income reduction.

- *Conducting a detailed crisis budgeting analysis.* The first step when working with clients who have experienced an income reduction is to develop a crisis budget. One benefit of developing a crisis budget is that it acts as an opening to credit counseling by prioritizing expenses. By putting expenses and income down on paper, clients can easily see how they are spending their money, which they can continue to monitor even after their income increases.
- *Pursuing forbearances.* Getting loan modifications approved for clients with no income is problematic. If a job or income loss is temporary, counselors can pursue forbearance agreements with servicers. In particular, a forbearance plan can work well for people who expect to be reemployed, but such an approach is not appropriate for clients on fixed incomes.

Working successfully with clients

Counselors can only be as effective as their clients. Given the demand for foreclosure prevention services, effective organizations get clients proactive and engaged in the process.

- *Ensuring that clients bring all required information to the initial one-on-one counseling session.* Counselors stressed that servicers will not make any decision on a client's proposed loss mitigation solution, which often include a request for a loan modification, directly. Rather, servicers often require authorization forms from lenders, budgets, and hardship letters, and these requirements can vary by servicer. Agencies have instituted strategies (checklists, pre-counseling orientation meetings) to ensure that clients bring the required documents to their first counseling session so the counselor can contact a client's servicer during that session.
- *Empowering clients so they successfully manage the foreclosure prevention process.* Agencies do not have the resources to manage all aspects of a client's case. Therefore, counselors said that it is critical to work with a client who knows about getting loan modifications or other outcomes, has a realistic understanding of the options available given his or her circumstances, and will provide loan servicers with the documents and follow-up needed to reach a decision. Many

agencies, as a first step, provide details about the foreclosure process during an initial group counseling session. The group sessions helps clients start thinking about a preferred solution, which may not include retaining ownership of their home.

Conclusion

The National Foreclosure Mitigation Counseling program started in 2008 to help homeowners facing foreclosure. To measure how well the program met this objective, the Urban Institute conducted a three-year evaluation of the program. The evaluation consisted of several activities to help understand the program's effects, including interviews with mortgage industry and program participants, reviews of program reports and documents, surveys of foreclosure counseling organizations, and an in-depth analysis of outcomes for counseled mortgages.

The NFMC program has been an important and successful tool in addressing the record number of troubled homeowners who have faced, and continue to face, loss of their homes because of foreclosure. While counseling cannot solve to the foreclosure crisis, it nonetheless has helped homeowners achieve better outcomes, which in turn has benefited the country by reducing the numbers of nonperforming and failed mortgages, avoiding social costs associated with foreclosures, and allowing more people to retain their homes.

As the housing crisis continues to play out over the coming months and years, the information provided through this evaluation will help guide policymakers and practitioners toward solutions that will provide much-needed help to the nation's struggling homeowners.

INTRODUCTION

The National Foreclosure Mitigation Counseling (NFMC) program is a special federal appropriation, administered by NeighborWorks® (NW) America, designed to support a rapid expansion of foreclosure intervention counseling in response to the nationwide foreclosure crisis. The NFMC program seeks to help homeowners facing foreclosure by providing them with much-needed foreclosure prevention and loss mitigation counseling. NW America distributes funds to competitively selected Grantee organizations, which in turn provide counseling, either directly or through Subgrantee organizations.

As this is a federal appropriation, NW America must inform Congress and other entities of the NFMC program's progress. The Urban Institute (UI) was selected by NW America to evaluate rounds 1 and 2 of the NFMC program. This report presents final results of the evaluation, including analyses of the program's effects on its clients and the larger foreclosure crisis. It includes three main sections:

- *Review of Evaluation Activities and Previous Reports.* A brief overview of the data collection and analysis activities undertaken as part of this evaluation and the preliminary reports.
- *Final Modeling Analysis.* A complete discussion of the final quantitative analysis of mortgage outcomes for NFMC counseled loans.
- *Findings and Lessons from the NFMC Program.* A summary of the most important results from the NFMC evaluation, along with lessons learned about best practices for foreclosure mitigation counseling.

Additional materials related to this report (copies of past reports, multivariate model results, etc.) are in appendices, which are provided as separate documents.

REVIEW OF EVALUATION ACTIVITIES AND PREVIOUS REPORTS

The evaluation of the NFMC program began in June 2008 and, over the subsequent three years, involved a wide range of research activities to examine multiple aspects of the program and its impacts. The purposes of our analyses were not only to document whether counseling helped troubled homeowners, but also to explain *how* counselors were able to get good outcomes. Therefore, our evaluation consisted of qualitative and quantitative components that analyzed information collected about clients, Grantees, and Subgrantees. The combination of data and analyses allowed us to comprehensively assess the NFMC program's impact on the foreclosure crisis.

Several earlier analyses have been published and are summarized briefly below.

Process Study

We conducted a process study of the methods used by NW America to select round 1 Grantees and to determine how transparently NW America administered round 1 of the NFMC program. To complete this study, we interviewed NW America staff that helped develop client-level and quarterly report databases and procedures to track funding in the organization's finance system. We also interviewed representatives of contractors engaged by NW America to assess whether Grantees are complying with program requirements and that counseling services were provided to homeowners in a manner consistent with the national industry standards.

Based on the information provided by key informants interviewed for this study and our analysis of scoring data that NW America used to make NFMC program awards, we concluded that NW America used an objective system to review applications and implemented a robust process to monitor grantee performance that included collecting a wide range of quantitative and qualitative data. Reviewers scored applications only after they received extensive training from NW America staff about a scoring rubric that provided objective criteria for assessing each application. In addition, NW America determined award amounts using standard algorithm that was applied to each applicant. Finally, NW America collected quantitative and qualitative information from grantees and through its compliance and quality control contractors to ensure that grantees spent the awards on appropriate activities and that grantees adhered to the award agreements executed with NW America.

The full process study report is included as appendix A.

Reconnaissance Interviews

We conducted two sets of reconnaissance interviews, one in summer 2008 and another in early 2010. In both rounds, we selected industry participants and observers of the mortgage lending and foreclosure counseling markets to gain an understanding of the context in which NFMC was operating. We asked key informants about the issues driving continued mortgage performance problems, challenges counselors faced when seeking outcomes preferable to foreclosure for their clients, changes servicers and counselors made to handle the demand for foreclosure counseling, and changes in the foreclosure environment. In the second round of interviews in 2010, we asked additional questions regarding the impact of the new federal Making Home Affordable Program, which includes the Home Affordable Modification Program (HAMP). The information collected in these interviews helped us determine topics asked in our web survey of Grantees and Subgrantees and to develop appropriate outcome measures of counseling's effects on clients.

The two reports documented changes in the environment in which the NFMC program was operating in its early stages and after it had been in place for over a year. In the initial 2008 interviews, key informants said that mortgage performance issues were largely a function of *subprime loans* granted (perhaps predatorily) to borrowers who could not afford payments, in part due to *resetting interest rates*. In the subsequent 2010 interviews, however, key informants reported that mortgage delinquencies were now driven by *income losses* resulting from *higher unemployment* or *reductions in hours worked* by people who still had jobs. This change presented new challenges for NFMC counselors. Many delinquent borrowers had either little or no income because of unemployment or under-employment, making it difficult for them to afford even a modified mortgage. In addition, homeowners with large amounts of nonhousing-related debt or second liens might also be unable to afford even reduced mortgage payments. Further, declining house prices meant that borrowers with negative equity in their homes might be less willing to consider loan modifications, as renting may be less expensive than a modified mortgage.

In both sets of interviews, however, key informants highlighted consistent challenges that counselors faced because they were unable to meet the increasing demand for foreclosure counseling services. Another common challenge was the difficulty working with the mortgage industry to obtain loan modifications or other solutions that would allow homeowners to remain in their homes. Key informants saw little improvement in the responsiveness and capacity of the mortgage industry to help counseled homeowner over the two years.

Nonetheless, key informants in our 2010 interviews said that HAMP had an enormous impact on the mortgage industry by establishing national standards for loan modifications. One of the most positive effects of the program was that the loan modification target of reducing a payment to 31 percent of an owner's gross income became a goal used by all participating servicers and counselors, even for many non-HAMP, or "private label," loan modifications. Despite this and other improvements, key informants pointed out several problems with HAMP. Most notably, the 31 percent income standard, while addressing the issue of people having loans with interest rates that were too high, did little to help the growing numbers of troubled borrowers who had little or no income because of unemployment or underemployment. Key informants also cited problems getting HAMP modifications converted to permanent modifications for borrowers who made all their mortgage payments during the trial period.

The two reports summarizing our reconnaissance findings are included as appendices B and C.

Web Surveys

We administered web surveys in April 2009 to round 1 Grantees and Subgrantees and in August 2010 to round 2 Grantees and Subgrantees. The survey was designed to collect information on the following topics:

- Grantee perceptions of NW America as the NFMC program administrator;
- the impact of a grant on a recipient organization's capacity to deliver foreclosure counseling services;
- the extent to which client-level reimbursements cover total foreclosure counseling costs;
- the availability of financing for clients to help pay off arrearages or refinance their existing mortgages;
- the obstacles organizations faced in serving expanded numbers of clients, and the mechanisms organizations employed to meet these obstacles; and
- the challenges to obtaining successful outcomes for clients and the strategies respondents used to increase their ability to help borrowers obtain those positive results.

Findings from the two rounds of Grantee and Subgrantee surveys were very similar. Survey respondents in both rounds said that the NFMC program allowed their organizations to serve more clients and offer their services in a larger geographic area than they were able to before receiving NFMC funding. Survey respondents noted other benefits of being part of

NFMC, including NW America's communication with Grantees and Subgrantees through WebEx sessions and a message board that were helpful in keeping staff informed about best practices.

The main obstacles cited by survey respondents that made it more difficult for them to obtain successful outcomes for their clients were similar in Rounds 1 and 2, but the order of importance changed. In Round 1, the single most frequently identified challenge to obtaining good outcomes was clients' job loss or reduced wages/income. The second most frequently mentioned issues were servicer-related challenges, such communicating with loss mitigation staff in a timely and consistent way, exchanging documents and authorizations, and obtaining responses to loan modification requests. In Round 2, however, the order was reversed, with servicer responsiveness challenges rated as the most serious, followed by client economic challenges.

Survey respondents took various actions within their control to improve outcomes for their clients. The highest ranked strategies focused on relationships and working process with clients, especially at the start of counseling. Topping the list was being frank with clients about their options and managing expectations. Following closely behind were conducting one-on-one interviews with clients, establishing action plans for borrowers at the first meeting, and requiring clients to bring needed documents with them by not later than their first one-on-one session.

Other counseling strategies involved providing opportunities for counselors to exchange ideas and information, triaging clients to focus first on those with imminent foreclosures, and improving communication with servicers.

Summaries of the findings for each web survey are included in appendices D and E.

Case Studies

To supplement information collected through the web-based survey of Grantees and Subgrantees, we selected organizations based on their ability to achieve good outcomes for their clients to explore, in depth, the key factors that influenced their successes (and failures). Based on their ability to get loan modifications for their clients and the performance of their clients' loans over time, we selected 17 organizations to conduct in-depth interviews with executive directors, staff who managed counselors, and, for some organizations, counselors who provided services to troubled homeowners. We conducted interviews with representatives of 13 organizations: two organizations participated in on-site interviews in the spring 2009, while the remaining 11 organizations were interviewed via telephone in spring 2011.

Not surprisingly, given the results of the web surveys, the counseling agencies in our case studies considered improving their interactions with servicers a very important part of achieving good results for their clients, and they put significant effort into this area. The counseling agencies worked to improve relations with servicers in several ways, including reducing the chaos and delay resulting from lost documents submitted to servicers; developing contacts and relationships with servicers and learning whom to go to for good cooperation, escalation, and quick response; being able to assess how servicers were likely to respond to a proposed modification, forbearance, or other proposal; following up persistently; initiating or participating in single-servicer events; and having live contact between servicers, clients, and counselors.

Despite these efforts, most counseling agencies seem to believe that they cannot have much impact on servicer or lender decision-making, in terms of how the servicer evaluates a case. While good counselors do not easily take "no" for an answer, and will aggressively look for other decisionmakers, outside-the-box thinking, and additional options, they do not expect to affect the basic decision calculus of generally large, distant servicers.

Counseling agencies in our case studies also strongly emphasized their interactions with clients. Effective organizations encourage clients to be active and engaged in the process. This often starts with requiring clients to complete paperwork and send in documents before meeting with a counselor. In addition, successful organizations provide realistic evaluations to their clients regarding the chances of obtaining loan modifications and other retention solutions. These evaluations include a candid analysis of a client's income and expenses. The key objective is for the client to understand his or her financial situation, and the desirability under the client's circumstances to remain in the home. This is especially important for clients whose income has dropped sharply, such those who have lost a job.

Our findings from these interviews are summarized in two case study reports. The first is included in appendix F; the second in appendix G.

Modeling Analysis

While the above components of the evaluation were vital to better understand the NFMC program and explain its ability to help troubled homeowners, the quantitative modeling analysis was in many ways the central piece of the evaluation. In this analysis, we used data on loan performance to measure the impact of NFMC counseling on several important client outcomes, including receiving loan modifications with lower monthly payments; curing serious delinquencies and foreclosures and sustaining those cures; and avoiding foreclosure completions. This analysis allowed us to quantify the benefits of the NFMC program for counseled homeowners.

We have issued two previous reports, in November 2009 and December 2010, presenting preliminary findings based on our modeling analysis.[6] These results are superseded by the final modeling analysis presented in this report. As with our preliminary findings, our final

[6] These reports can be accessed on the Urban Institute web site at http://www.urban.org/url.cfm?ID=411982 and http://www.urban.org/url.cfm?ID=412276.

modeling analysis continues to show strong, positive impacts of the NFMC program on most client outcomes. We have, however, refined our models to include improved controls for possible selection effects, additional outcomes (sustainability of non-modification cures and avoidance of foreclosure completions), interaction analysis to measure counseling impacts on different subpopulations, and interactions to determine if the presence of HAMP has affected counseling outcomes.

FINAL MODELING ANALYSIS

This section summarizes the final modeling analysis of client outcomes for the NFMC program evaluation. The first part provides an overview of the objectives of the modeling analysis and briefly summarizes the key findings. The remainder of this section describes the data sources used in the analysis and how they were employed to create samples of counseled and non-counseled mortgages for the analysis. It also covers the creation of specific outcomes and the approach to modeling the impact of the NFMC program on each one. Finally, it details the results from the modeling analysis of NFMC mortgage outcomes.

Overview of the Modeling Analysis

If the NFMC program did not exist, presumably some NFMC clients would have not taken any action to avoid foreclosure. Others might have attempted to cure their delinquency themselves, contacted their mortgage servicer to negotiate a loan modification on their own, or used the services of other counseling agencies not funded by the NFMC program. Some people would have been successful in avoiding foreclosure, while others would not.

Even with NFMC-provided counseling, it is unreasonable to expect that all foreclosures could be avoided. For instance, some homeowners are in homes that they simply cannot afford. While counselors may be able to help some of these clients negotiate better outcomes, some foreclosures are likely inevitable.

Therefore, this evaluation supposes that *the NFMC program has a positive effect if it results in better outcomes for clients than would have been achieved without the availability of services provided by NFMC Grantees.* The NFMC program's major objective is to help homeowners avoid foreclosure. The multivariate statistical analyses presented in this report are based on a sample of close to 335,000 loans and answer the following questions about the NFMC program's performance.

- Did the NFMC program help homeowners receive loan modifications that with lower monthly payments than homeowners would have otherwise received without counseling?
- For homeowners that cured (i.e., brought to current) a serious delinquency or foreclosure through a loan modification or some other means, did NFMC

counseling help them remain current on their loans longer and more frequently than they would have been without counseling?

- For borrowers with seriously troubled loans, did NFMC counseling increase their chances of first obtaining a cure and then sustaining that cure and avoiding redefault?
- Did the NFMC program help reduce the number of completed foreclosures?[7]

The first three questions had been examined in the preliminary analyses of the NFMC program (Mayer et al. 2009, 2010), although the questions of whether homeowners were more likely to remain current on their loans or cure an existing serious delinquency or foreclosure were looked at only in the context of loan modification cures. This final report expands the sustainability and cure analyses to include borrower self-cures not involving a loan modification. The fourth question, the impact of the NFMC program on reducing foreclosure completions, is evaluated for the first time in this report.

In addition, this report includes analyses that test whether NFMC program effects changed over two very different periods during this evaluation. The first is the period before HAMP began, January 2008 through March 2009; the second is the period beginning in April 2009, when HAMP first became available. The purpose of these analyses was to determine whether HAMP affected counseling impacts, either positively or negatively.

According to the evaluation of round 1 and 2 NFMC program effects, the answer to each of the four outcome questions above is “Yes.” These results are summarized in table 1. The magnitudes of the program effects are in many cases very substantial. Further, NFMC counseling retained, or even increased, its effectiveness in helping troubled homeowners in the period after HAMP.

[7] This analysis replaces previous models of foreclosure cures that measured the NFMC program’s effect on the likelihood of a loan in foreclosure to stop being in foreclosure. That earlier analysis did not address whether the loan was permanently out of foreclosure as a result of the cure. Measuring whether foreclosure is completed a better indicates the program’s impact on helping owners avoids losing their homes.

Table 1: NFMC Program Impacts on Mortgage Outcomes

	Pre-HAMP	**Post-HAMP**
Average additional reduction in monthly payment from loan modification	$176	$176
Reduction in redefault rate nine months after curing a serious delinquency[a] or foreclosure		
Loan modification cures	67 percent	70 percent
Non-modification cures	49 percent	32 percent
Change in relative odds of curing a serious delinquency[a] or foreclosure		
Loan modification cures	89 percent higher	97 percent higher
Non-modification cures	32 percent lower	32 percent lower
Percentage of loans in serious delinquency or foreclosure both curing and sustaining cures	2.5 times higher	1.6 times higher
Reduction in foreclosure completions	No effect	36 percent

[a] Serious delinquency is three or more months of missed payments.

Loan Modifications

NFMC clients that had their loans modified in 2008 and 2009 and received counseling assistance paid $176 a month less, on average, than non-counseled clients that also received loan modifications. This average payment was 7.8 percent less than it would have been without counseling and translated into an annual savings of about $2,100 per counseled homeowner.

This average payment reduction is about $90 lower than the NFMC program effect reported in December 2010's preliminary study. The final, lower estimate is based on models that include loan records missing information on a borrower's debt-to-income (DTI) ratio and credit score at loan origination. Previously, loans without DTI ratios or credit scores were dropped from the modeling analysis. Omitting these loans biased upward the estimated effects of the NFMC program on payment reductions from loan modifications.[8] For this final report, the variables were transformed into categorical data, which included a missing category so all loans could be included in the model estimations. Retaining these loans significantly affected the results because (1) they accounted for a large share of the total loans (about 40 percent) and (2) borrowers without a reported credit score or DTI ratio received, on average, loan modifications with lower payment reductions.

[8] Loans with missing DTI ratios or credit scores were likewise included in the analysis of the other program outcomes discussed in this report.

Sustainability of Modification Cures

The combined effect of counseling from a larger payment reduction and other counseling assistance substantially reduced (by approximately three-quarters) the relative odds that borrowers would redefault after receiving loan modifications bringing seriously delinquent mortgages (those with three or more months of missed payments) or foreclosures back to current status. Translated into percentage terms, counseling lowered redefault rates after a modification cure of a typical loan by more than 66 percent.

Although a small part of this effect (about a 3.5 percent decrease in the relative odds of redefault) was attributable to counseling's effect on the size of monthly payment reductions, the great bulk of the sustainability benefit resulted from other impacts of counseling, such as helping borrowers improve their financial management skills, assisting them in managing relationships with servicers and investors, and providing other types of support. Further, although very few modifications included this feature, the relative odds of redefault were reduced by an additional 20 percent when the loan modification curing a serious delinquency or foreclosure included principal reduction.

Both before and after HAMP, redefault was a major problem without counseling and a far reduced one with counseling support. The impacts of counseling on sustainability differed very little before and after the start of HAMP, with counseling reducing the relative odds of redefault by 78 and 74 percent, respectively. The effect of reducing loan payments through modifications was miniscule in both periods, with the other effects of counseling decreasing the relative odds of redefault by 77 percent before HAMP and 73 percent after HAMP. Finally, the combination of the two federal interventions (NFMC counseling and the implementation of HAMP) lowered redefault rates for borrowers curing loans through modifications from 66 to 11 percent (an impressive 83 percent reduction) over the course of nine months for a typical counseled loan.

Sustainability of Non-Modification Cures

NFMC counseling also increased sustainability substantially for loans cured *without* a loan modification. Though the sustainability effect was somewhat smaller than for counseling and cures with modifications, the impacts were still large for a single program intervention. Overall, counseling reduced the relative odds of redefault for non-modification cures of loans in serious delinquency or foreclosure by about half. The counseling impact was larger before HAMP than after but still substantial in both periods. Before HAMP, counseling reduced the relative odds of redefault after a non-modification cure by 66 percent. After the start of HAMP, the relative odds of redefault for counseled borrowers were 39 percent lower than for non-counseled borrowers.

Measured by the probability of redefault, in the pre-HAMP period, counseling lowered the redefault rate for a typical NFMC-counseled loan cured without a loan modification from 71 to 36 percent, or 49 percent, over nine months. For non-modification cures obtained once HAMP was in place, borrowers that received counseling had a cumulative redefault rate of 26 percent after nine months, compared with 38 percent for those without counseling, meaning that counseling lowered recidivism for these cures by nearly 32 percent.

Modification Cures

In addition to increasing the sustainability of cures, NFMC counseling improved client outcomes by increasing the likelihood that a borrow would bring a loan in serious delinquency or foreclosure back to current status. NFMC counseling came close to doubling the odds of modification cures compared with those for non-counseled borrowers. For those entering counseling before HAMP, the relative odds of obtaining a modification cure from a serious delinquency or foreclosure increased by 89 percent, compared to the odds without counseling assistance; after HAMP, the odds increased to 97 percent.

Translating these relative odds to cumulative percentages of modification cures, after 12 months (the average observation period for loans after they became troubled), 8 percent of homeowners before HAMP receiving counseling assistance had modification cures, compared with 5 percent among borrowers without counseling—a 60 percent increase with counseling. After HAMP, 17 percent of homeowners with counseling assistance cured their serious delinquencies or foreclosures after 12 months, compared with 9 percent without counseling—an 88 percent increase attributable to counseling.

Non-Modification Cures

The impacts of counseling on non-modification cures were very different from those for modification cures. Counseling assistance was associated with *fewer* non-modification cures, overall and at all counseling levels. The relative odds of a non-modification cure decreased over 30 percent for counseled loans both before and after HAMP. A likely interpretation of this result is that some people who would have obtained non-modification cures without counseling were able to, with counseling, instead obtain cures with modifications. This shift reduced non-modification cures for people with counseling. The effect was especially strong once HAMP modifications became available (and set standards for other modifications), particularly among people who received more counseling, which was often needed to bring about successful modifications (according to the observers we interviewed).

Achieving and Sustaining Cures

A crucial outcome for borrowers is curing loans in serious delinquency or foreclosure combined with sustaining those cures (i.e., avoiding redefault). When the results of the sustainability and cure analyses are synthesized, they demonstrate that NFMC counseling nearly doubled the rate of curing and sustaining. Among counseled borrowers, 12.7 percent of seriously delinquent or foreclosed loans were cured and sustained without redefault, compared with only 6.5 percent among non-counseled borrowers' loans—a ratio of 1.96.

The ratio of counseled to non-counseled cure-and-sustain rates was higher before HAMP (2.5), but even after HAMP was under way, NFMC counseling boosted the rate of sustained cures by 1.6 times. Counseling in both periods helped people become current on their loans and stay that way. NFMC counseling and the HAMP environment together raised the rate of sustained cures by a factor of five, compared with results achieved without counseling assistance before HAMP.

Although many homeowners that cured their serious delinquency or foreclosure stayed current, particularly those who received loan modifications through counseling, cures were generally very limited. Because of its opposite and thus partially offsetting effects on modification cures and non-modification cures, counseling affected total cures of seriously delinquent and foreclosed loans relatively modestly. In the post-HAMP period, even with counseling, modification plus non-modification cures totaled only 24 percent of significantly troubled loans. Therefore, while counseling and HAMP help homeowners in a number of ways, many homeowners' problems persist.

Avoiding Foreclosure Completions and Cost-Benefit Analysis

According to the previous analyses, NFMC counseling has several benefits: it generates loan modifications with larger payment reductions, it helps homeowners cure seriously delinquent loans, and it produces more sustainable cures. To determine if these effects helped clients remain in their homes, the latest analyses estimated the impact of counseling on the likelihood of foreclosure completion, which would result in the homeowner losing his or her home.

Between January 2008 and December 2010, 10.3 percent of round 1 and 2 NFMC clients had a foreclosure completion.[9] Without counseling, this percentage would have been 1.15 times as great; this translates into 13,000 fewer foreclosure completions for NFMC clients by the end of 2010. In other words, the NFMC program prevented nearly one in seven foreclosures that would have been completed without counseling. These results are driven by NFMC performance after HAMP, which reduced the total number of foreclosure completions by 36 percent. Before HAMP, there was no statistically measurable difference in foreclosure completion rates between counseled and non-counseled borrowers.

Since foreclosures create costs for homeowners, lenders, local governments, and society at large, avoiding foreclosures generates cost savings. Each foreclosure avoided by the NFMC program is estimated to have saved $70,600. These savings include $10,000 in moving

[9] Foreclosure completion includes foreclosure sale, short sale, and other involuntary losses of a home through foreclosure-related actions.

costs, legal fees, and administrative charges for homeowners; 36 percent of the total lender loss, which represents the deadweight loss to society; $6,500 in local government administrative and legal costs; and $13,900 in reduced neighboring property values.[10]

Assuming the 13,000 loans that avoided foreclosure through December 2010 because of counseling do not complete foreclosure at some point in the future, the NFMC program has helped save local governments, lenders, and homeowners *$920 million*, which is about $1,200 per client served by the NFMC program in 2008 and 2009. These savings translate to between 2.4 and 3.0 times the total round 1 and 2 NFMC funding plus other spending to provide counseling services to these homeowners.

In rest of this section, we discuss how we obtained the results above. We describe the data sources used for the analysis and how the comparison group of non-NFMC loans, outcome variables, and control variables were created; discuss the methodological challenges inherent in a statistical study of this nature, how we compensated for these challenges, and the possible implications for our results; and, finally, present the modeling results and findings that were summarized above.

Data Used in the Analysis

Three main data sources were used in the outcomes modeling analysis. These sources include administrative data collected by NW America from NFMC program Grantees on counseled homeowners, as well as two national data sources on U.S. mortgage loans and borrowers. This section describes these three data sources and explains how they were used to create a sample of NFMC-counseled homeowners and a comparison sample of non-counseled homeowners for the multivariate analysis. This section also describe the outcome variables (monthly payment reduction from loan modification, serious delinquency/foreclosure cure and sustainability, and foreclosure completion) and the other control variables used in the models, including an explanation of how they were constructed using the available data.

NFMC Program Production Data

NFMC program Grantees are required to provide client-level data (referred to as *production data*), along with quarterly reports on aggregate activity toward overall goals established under the grant award. Grantees submit the production data on an ongoing basis through an electronic submission system. Production data consist of a record for each “counseling unit” provided by the Grantee or Subgrantee to an individual homeowner.

The NFMC program recognizes three distinct levels of counseling services. In Level 1 counseling, the NFMC Grantee or Subgrantee conducts a client intake process and develops a

[10] See pages 98–101 of the main report for further details on the derivation of these cost figures.

budget and a written action plan for the client. After Level 1 counseling is completed, it is up to the client to follow through with any activities on the action plan. In Level 2 counseling, the Grantee or Subgrantee verifies the client's budget and takes additional steps to obtain solutions outlined by the action plan. In Level 3 counseling, Level 1 and Level 2 counseling are completed in succession by the same Grantee or Subgrantee. Since an individual homeowner may receive both Level 1 and Level 2 counseling, these sessions are counted and referred to as separate units of counseling.[11]

The production data provide the list of homeowners that have received NFMC program counseling in some form and, therefore, constitute the *treatment group* for the analysis of program impacts. The data consist of information on the counseled homeowner, including identifying data (name, address), demographic characteristics, and household income; information on the client's mortgage loan, including the current servicer, loan terms, and current default status; and information on the type and amount of foreclosure mitigation counseling received. For this report, we used production data on approximately 960,000 clients counseled during Rounds 1 and 2 of the NFMC program in 2008 and 2009 and reported to NW America as of January 22, 2010.

Grantees also can report outcomes for each counseling unit, although individual outcome reporting is not required for all counseling units in the production data. As a result, 13 percent of Level 1 counseling units in the first round of the program and 14 percent of Level 1 counseled households in the second round did not have a further reported outcome. Even for records with Grantee-reported outcomes, the outcome might be "currently in negotiation with servicer; outcome unknown" (35 percent of round 2 counseled households) or "initiated forbearance agreement" (10 percent), which still leaves open the question of whether the forbearance agreement was sufficient to avoid foreclosure.

Given these limitations on Grantee-reported outcomes, to model the impacts of the NFMC program on key outcomes of interest we needed to match the homeowners from the production data with external data on mortgage performance. In addition, to model the "what if" case of households that did not receive counseling, we needed an additional sample of loans for non-NFMC program participants, including their outcomes regarding foreclosure. We used data from LPS Applied Analytics, Inc., and from the Home Mortgage Disclosure Act to supplement the production data.

[11] In round 2, a new counseling level (Level 4) was added for homeowner counseling services provided to fulfill HAMP requirements. Level 4 counseling units are not included in the analysis presented here as they constitute a very small share of reported clients.

LPS Applied Analytics Loan Performance Data

LPS Applied Analytics, Inc., (LPS) is a commercial company that compiles home mortgage performance data from large loan-servicing organizations. These data were originally compiled by McDash Analytics, Inc., but LPS acquired that company in 2008. As of June 2010, LPS estimated that its database covered nearly 70 percent of the active residential mortgages in the United States. LPS compiles loan-level data from mortgage servicers, including nine of the ten largest servicers nationwide, and tracks several aspects of loan performance for active mortgage loans. NW America has negotiated an agreement to purchase LPS's loan-level database, which has approximately 36 million mortgage loan records, for use in this study.

The LPS data include numerous characteristics of each mortgage loan, including the borrower's FICO score at loan origination, the original loan amount, the current interest rate of the loan, the loan type (fixed rate, adjustable rate [ARM], option ARM), and the ZIP code of the mortgaged property. The data also track various loan performance indicators, including when a borrower defaulted on a loan and whether the loan has gone into foreclosure. The LPS loan performance data are updated monthly, which permits tracking of delinquency and foreclosure status on a month-to-month basis.

One issue with LPS is that relatively large shares of observations do not contain information on individual borrower's debt-to-income ratio or credit score at origination. About 40 percent of observations in our sample did not have a DTI, and 20 percent of the records did not include a credit score. These variables have been shown to be important factors in predicting loan performance, so we wanted to include them in our models. In previous analyses, we excluded records that did not have either DTI or credit score information, thereby losing about 40 percent of our observations. To correct for this problem, all the models in this report include categorical variables for DTI and credit score (which are reported in LPS as continuous variables); one of the categories is for observations with missing data. This method allows us to include all observations whether or not they are missing DTI ratios and/or credit scores.

Home Mortgage Disclosure Act Data

The Home Mortgage Disclosure Act (HMDA), enacted in 1975, requires most lending institutions to report detailed data on mortgage application outcomes and approved loans to the Federal Financial Institutions Examination Council. HMDA data are routinely used to determine if housing credit needs are being met in particular neighborhoods and to identify discriminatory lending patterns. HMDA data are released publicly every year, and the public data include such fields as the race, sex, and income of the borrower; the loan amount and type; and the census tract of the mortgaged property. For this analysis, we had access to national loan-level HMDA data from 2002 through 2008.

We used the HMDA data to link additional borrower characteristics with the LPS data. Further, since census tract is reported on the HMDA data, by combining LPS and HMDA records we were able to link additional census tract information for the non-counseled loans. (The counseled loans already had geocoded tract identifiers.) These census tract characteristics allowed us to control for neighborhood effects in our models.[12]

NFMC Analysis Sample

Data for this analysis were drawn from approximately 960,000 NFMC "counseling unit" records reported to NW America, as of January 22, 2010, for clients that received counseling services between January 2008 and December 2009. A counseling unit refers to a client who received one or more counseling sessions at a given level of service from the same Grantee. It is possible, however, for a person to receive counseling at different levels from the same Grantee or to receive counseling from different Grantees. These would be reported in the NFMC program production data as separate counseling units. We were able to filter out multiple instances of counseling provided to the same homeowner, however, through our match with the LPS database.[13]

The NFMC counseling unit records were matched to the LPS database by the loan servicer's name and loan identification number. While these two pieces of information are included in the data reported by NFMC Grantees, they are not included in the data provided by LPS for the NFMC evaluation. LPS does, however, maintain this information in its internal database. Therefore, LPS was able to merge the records for us, matching the loan servicer and loan identification number reported by the NFMC Grantees to the corresponding fields in their database and provide the internal loan identification number for those loans. This information was used to append the LPS loan information to the NFMC counseling records.

Not every NFMC loan could be successfully matched to a loan in the LPS database. First, the LPS database covers about 70 percent of U.S. mortgages, so some NFMC-counseled loans may simply not be included. In addition, some loans in the LPS database do not contain real servicer loan identification numbers, but rather an internal number generated by the servicer solely for LPS reporting purposes. These loans could not, therefore, be matched.[14] In addition, errors in reporting or recording data in either the LPS or NFMC database would result in match failures. While all these issues likely affected the ability to match loans between the NFMC and LPS databases, it is not possible to determine how much each factor contributed to lowering the overall match success rate.

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[12] To test whether requiring our comparison group of non-counseled loans be matched to HMDA records resulted in a biased sample, we also analyzed a comparison group based on a sample of non-counseled loans that were not matched to HMDA. This is discussed further on pages 42-43.

[13] About 17 percent of the matched LPS loans corresponded to two different NFMC-reported counseling units; 1 percent corresponded to three or four counseling units.

[14] The lack of real loan identification numbers for particular servicers was a possible source of selection bias in our sampling methods. This turned out not to be the case, however, as discussed on pages 41-42.

The matching process resulted in 180,000 unique LPS loans matched to NFMC records, a match rate of about 22 percent.[15] Although not randomly selected, a comparison of the NFMC-LPS matched loans with the NFMC population revealed that, based on key observable characteristics such as borrower age, borrower income, type of mortgage, amount of monthly payment, loan delinquency status, and level of counseling provided, the matched loans constitute a representative sample of all the NFMC clients counseled in the first 12 months of the program. A comparison of the characteristics of the NFMC sample and population can be found in appendix H.

Non-NFMC Analysis Sample

As noted in the introduction, the performance of the NFMC program should be assessed relative to what would have happened had NFMC's counseling services not been available. To make this comparison, we selected a group of non-counseled homeowners against which performance of loans for NFMC-counseled homeowners can be compared. The method we used to draw the comparison sample attempted to match selected characteristics of loans in the NFMC sample. In addition, we used multivariate analysis to control for any differences between the two sets of loans that might affect the outcomes of interest.

The gold standard for evaluation analysis is an experimental design with random assignment of treatment. In an experimental study design, homeowners seeking foreclosure assistance would be randomly assigned to two groups: one that would receive counseling services and one that would not. The two groups would then be followed, and any differences in outcomes between the two could reasonably be attributed to the effect of the counseling.

The virtue of the experimental design is that, if done properly, the two groups should be indistinguishable from each other in both observable and unobservable characteristics, except for the fact that one group received counseling. The NFMC program was not set up as an experimental design, however, so differences between the counseled homeowners and the non-counseled homeowners must be controlled for using statistical methods. In this analysis, therefore, we used two different multivariate modeling techniques (logistic regression and ordinary least squares regression), which allowed us to control for differences in characteristics between the counseled and non-counseled loans.

For the purposes of modeling program effects, we selected a group of mortgage loans that did not receive NFMC counseling to serve as a comparison sample in our model estimations. One possible method for selecting the comparison sample would have been to

[15] In a very small number of cases (557), the same NFMC counseling unit matched against multiple LPS loan records. These counseling units were deleted from the analysis. In a larger share (38,067 counseling units), the same LPS loan was matched to multiple counseling unit records. In these cases, the counseling unit with the highest level of counseling service provided was retained. In cases where two or more units had the same highest level of counseling, the record with the latest counseling intake date was kept.

choose randomly a portion of loans among those LPS database records that were not matched to NFMC loans. We chose not to use this approach because NFMC clients have characteristics that differ from the overall population of residential mortgages. For one, NFMC clients are much more likely to be delinquent on their loans than homeowners in general. Close to 70 percent of NFMC clients are delinquent on their mortgage when they enter into foreclosure prevention counseling, compared with an overall delinquency rate of 9.55 percent for all mortgages as of June 2010 (LPS 2010). As a consequence, a randomly chosen sample of all U.S. mortgages that did not receive NFMC counseling would almost certainly yield a group of loans that differed from the NFMC-counseled population in a number of important respects.

While many variations between the NFMC loans and a random sample of non-NFMC loans would be controlled for in the subsequent modeling, the large differences in the distributions of the control variables would reduce the efficiency of the model estimates, as well as possibly increase the impact of selection bias. We discuss the issue of selection bias in the Potential Modeling Issues section (page 37). The issue of efficiency of the model estimates can be described as follows: Suppose that almost all the NFMC loans were adjustable rate mortgages and almost all the non-NFMC loans were fixed-rate mortgages. It would be very difficult (if not impossible) to separate statistically the effect of the NFMC program on foreclosures from the effect of the mortgage type on foreclosures since there would be very few loans of the same type in the different treatment groups. The problem, therefore, is not that we would get the *wrong* answer regarding NFMC impacts, but rather that we would get *no answer at all*. By having NFMC and non-NFMC samples that are relatively similar on observable borrower and loan characteristics, our models will be more likely to separate program effects from other statistical "noise."

Therefore, instead of a random sample, we chose a comparison sample by implementing a propensity scoring model to match the characteristics of the NFMC and non-NFMC samples as closely as possible on several important dimensions. A propensity scoring model is a technique for drawing matched data samples based on common characteristics.[16] For each loan in the NFMC sample, the propensity scoring model found the closest match among the non-NFMC loans in the database. The propensity scoring model matched NFMC and non-NFMC samples using the following characteristics as of loan origination and counseling intake month:

- Year of loan origination
- Whether the loan was fixed or adjustable rate at origination
- Whether the loan was grade B/C (subprime) at origination

[16] We used a version of the propensity scoring match algorithm implemented as a SAS macro by Parsons (no date) to select our comparison sample.

- Interest rate in the month of counseling intake
- Months delinquent in the month of counseling intake
- Whether the loan was in foreclosure in the month of counseling intake
- Whether the loan was in the portfolio of Fannie Mae or Freddie Mac, was held in a private portfolio, was a private securitized loan, or was owned by another entity in the month of counseling intake
- State where the mortgaged property was located

By matching NFMC loans using a pool of outstanding loans at the time of intake, we increased the likelihood that the non-NFMC loans did not pay off (either through a refinance or a sale of the home) at a different rate than the NFMC loans. Moreover, about two-thirds of NFMC clients were not current on their mortgage at intake, which is a much higher share than for all mortgages. Therefore, by matching loans using status at intake in the propensity scoring model, we ensure that the performance of non-NFMC loans is similar to the disproportionate share of NFMC clients whose loans are not current.

As noted earlier, HMDA data were also used in the analysis to add consistent race, ethnicity, and census tract characteristics to the non-NFMC loan records since those characteristics are not part of the data LPS collects from loan servicers. Since these variables were seen as potentially key predictors of the foreclosure outcomes we were studying, we felt that it was important to include them in our models. Since our HMDA data only included loans originated between 2002 and 2008, we were limited to matching HMDA characteristics to NFMC counseled loans of this vintage. Fortunately, the vast majority of NFMC-counseled mortgages (85 percent) were originated between 2002 and 2008, so this restriction did not appreciably affect our sample selection.

The methodology for matching the loan records to the HMDA data is described in appendix I. Because no unique identifiers could be used to match data directly between the two sources, we matched on several loan characteristics, including ZIP code, origination year, and original loan amount. Because our analysis required an exact match, we excluded any loans where the matching was ambiguous—that is, where more than one HMDA loan met the match criteria for a given LPS loan. Despite these stringent matching requirements, a much higher match rate was achieved than with the NFMC-LPS match. Of the original 35 million LPS loans active as of January 2008 or originated during 2008, 1.1 million were successfully matched to HMDA records and were therefore available for use in the multivariate analysis as the NFMC analysis sample.

We carried out two separate propensity scoring matching rounds, one for loans counseled in 2008 and a second for loans counseled in 2009. For each round, matching was done monthly based on the intake date of counseling; loans for NFMC clients were matched against LPS loans outstanding in that particular month. Within a given year, matching was done without replacement of previously selected loans—that is, a loan could only be selected once to be included in the non-NFMC sample. When starting the second matching round for 2009, however, we allowed loans to have been previously selected for the 2008 comparison sample to be potential matches for the 2009 sample. Limiting our pool of loans to only those that had not been selected in 2008 would have severely limited the available supply of loans and increased the likelihood of ending up with poor matches—that is, loans that did not have the same characteristics as the NFMC loans. To avoid this problem, we allowed matching with replacement of previously matched loans between 2008 and 2009.

The propensity scoring model was run against the 180,000 NFMC analysis sample and approximately 1.1 million LPS loans originated between 2002 and 2008 that were not previously matched to NFMC records but were matched to HMDA. LPS loans that were not matched to NFMC loans were presumed *not* to have received NFMC counseling. Nonetheless, we must acknowledge that some of these homeowners may have received foreclosure counseling from some other program. It is also possible that some may have received counseling from the NFMC program itself but could not be matched to the LPS database because they were not in the LPS universe of loans, because they were in the portfolio of a servicer that did not report loan identification numbers to LPS, or because of data errors in the matching variables.

The propensity scoring process actually resulted in two NFMC analysis samples. The matched NFMC sample includes only those 155,000 loans that were successfully paired with a non-NFMC loan through propensity scoring. The non-matched NFMC sample includes the full set of 180,000 NFMC loans, combining the 155,000 matched sample loans plus the remaining loans that were not matched to non-NFMC loans. To test the robustness of our results, we ran our analyses using both sets of NFMC loans and found no important differences in the results based on which NFMC sample we used.

To validate the success of the propensity scoring matching process, we compared the characteristics of the NFMC and non-NFMC sample loans. As shown in tables 2 and 3, the two NFMC analysis samples and the non-NFMC sample selected by the propensity scoring model matched very well on the characteristics used in the propensity scoring. The largest discrepancies were in the shares of loans that are current on counseling intake (11 percentage point difference between NFMC matched sample and the non-NFMC sample), whether the loan was held by Fannie Mae or Freddie Mac (7 percentage point difference), the share of loans four or more months delinquent (7 percentage points), and the share of adjustable rate loans (5 percentage points).

We emphasize, however, that the success of our modeling does not depend on the NFMC and non-NFMC samples matching exactly. To the extent that we are controlling for characteristics that affect our foreclosure outcomes, differences between the two samples should not bias our modeling results. There are, nonetheless, some possible sources of bias in our data that we address in the Potential Modeling Issues section of this report (page 37).

Table 2: Comparison of NFMC and Non-NFMC Analysis Samples by Loan Characteristics as of Counseling Intake Month

	NFMC sample (matched only)	NFMC sample (matched + unmatched)	Non-NFMC sample
Number of loans	154,865	180,287	154,927
Percent by loan origination year			
2002	3.2	4.1	2.9
2003	7.2	7.1	6.6
2004	9.2	10.2	8.7
2005	19.5	19.6	19.8
2006	30.5	30.1	32.7
2007	24.5	23.6	24.1
Average interest rate (%)	6.8	6.9	6.9
Percent of adjustable rate loans	34.3	34.3	39.1
Percent by investor			
Fannie Mae/Freddie Mac	50.0	47.1	42.9
Private securitized	36.3	40.1	39.9
Private portfolio	12.9	12.1	16.3
Other	0.8	0.7	0.9
Percent by delinquency status at intake			
Current	36.7	40.4	47.7
1 month	12.6	11.2	12.8
2 months	11.1	9.8	8.9
3 months	8.1	7.2	6.2
4+ months	31.5	31.4	24.5
Percent in foreclosure	13.8	13.8	16.7

Source: Authors' calculations from NFMC program data and LPS loan performance data for January 2008.

Table 3: Comparison of NFMC and Non-NFMC Analysis Samples by State

	NFMC sample (matched only)	NFMC sample (matched + unmatched)	Non-NFMC sample (matched)
Number of loans	154,865	180,287	154,927
Percent by state			
Alabama	0.6	0.5	1.0
Alaska	0.1	0.1	0.2
Arizona	3.1	3.6	2.7
Arkansas	0.3	0.3	0.6
California	19.5	21.8	15.0
Colorado	2.6	2.4	2.6
Connecticut	1.1	1.2	1.2
Delaware	0.4	0.4	0.5
District of Columbia	0.3	0.3	0.3
Florida	7.2	7.1	6.8
Georgia	4.1	3.8	4.3
Hawaii	0.2	0.1	0.3
Idaho	0.3	0.3	0.5
Illinois	5.5	5.5	4.7
Indiana	1.3	1.2	1.9
Iowa	0.9	0.9	1.3
Kansas	0.4	0.3	0.7
Kentucky	0.4	0.6	1.1
Louisiana	0.5	0.4	0.8
Maine	0.2	0.2	0.4
Maryland	3.8	4.0	3.3
Massachusetts	2.3	2.3	2.1
Michigan	4.4	1.3	3.9
Minnesota	1.6	1.4	1.9
Mississippi	0.5	0.4	0.8
Missouri	2.3	2.2	2.5
Montana	0.1	0.1	0.2
Nebraska	0.2	0.2	0.4
Nevada	2.4	2.5	2.3
New Hampshire	0.3	0.2	0.4
New Jersey	2.2	2.1	2.4
New Mexico	0.4	0.3	0.6
New York	3.1	2.9	3.1
North Carolina	3.3	3.1	3.2
North Dakota	0.0	0.0	0.2
Ohio	4.9	4.9	4.1
Oklahoma	0.5	0.4	0.9
Oregon	1.0	0.9	1.2
Pennsylvania	3.9	4.1	3.1
Rhode Island	0.8	0.8	0.9
South Carolina	1.7	1.6	1.8
South Dakota	0.2	0.2	0.3
Tennessee	1.5	1.4	1.9
Texas	3.8	3.5	4.0
Utah	0.3	0.3	0.6
Vermont	0.1	0.0	0.1
Virginia	2.3	2.0	2.8
Washington	1.5	1.4	1.7
West Virginia	0.2	0.2	0.4
Wisconsin	1.3	1.2	1.6
Wyoming	0.0	0.0	0.1

Outcome Variables

The objective of counseling is to help achieve the most appropriate outcome, given the client's preference for remaining in a home and the feasibility of the owner making continued mortgage payments under the current loan terms or with a mortgage modification. As a result, counselors indicated, through web surveys and in interviews, that they attempted to achieve outcomes that were most beneficial to their clients. Consistent with these objectives, our analysis of the NFMC program measured the following counseling effects:

- **Modification payment reduction**: Did the NFMC program help homeowners receive loan modifications that resulted in lower monthly payments than they would have otherwise received without counseling?
- **Cures:** Were NFMC clients more likely to bring current a seriously delinquent loan or a loan in foreclosure either with a loan modification (**modification cure**) or without a loan modification (**non-modification cure**)?
- **Redefault:** Were loans for NFMC clients less likely to become seriously delinquent or enter foreclosure after a modification cure (**modification cure redefault**) or a non-modification cure (**non-modification cure redefault**)?
- **Foreclosure completion**: Are NFMC clients less likely to have a loan complete the foreclosure process?

To measure counseling's effects on the outcomes, we used the data sources described above to construct outcome variables corresponding to each of the above questions for both the NFMC and non-NFMC loan samples. In determining whether individual outcomes were a result of the NFMC program, we proceeded as follows: For loans in the non-NFMC comparison sample, all outcomes were assumed to be "non-counseling" effects; that is, if a non-NFMC loan experienced a modification, a cure, a redefault, or a foreclosure start/completion, then these outcomes were not attributed to the NFMC program. For NFMC sample loans, however, the outcomes were assumed to be counseling or non-counseling effects depending on when the outcome took place relative to the start of counseling. For example, if an NFMC client received a loan modification *before* beginning to receive counseling services, then this outcome was deemed a non-counseling effect. If, however, the loan modification was received *after* the start of counseling, then the result was attributed to the NFMC program.

Note that the list of outcomes above includes only those that could be tracked with the available data sources. Other outcomes, such as a short sale or a deed-in-lieu of foreclosure, might also be considered preferable to a foreclosure by the homeowner, even if they may result in the client leaving his or her home. Unfortunately, the data available did not allow us to identify short sales or deeds-in-lieu as distinct from other types of sales. The fact that we could not model them should not be interpreted to mean that outcomes other than those listed above are undesirable or ought to be excluded as measures of program success. Indeed, in interviews many counselors spoke to us of the importance of helping clients find "graceful exits" if they lack the means to remain in their homes, even with a loan modification.

Reduction in monthly payment from loan modifications

Our early analyses of outcome data for the NFMC program highlighted the importance of loan modifications in achieving successful outcomes for troubled homeowners. NFMC-counseled homeowners that received loan modifications were less likely to either have their loan go into foreclosure or to have a foreclosure completed after the start of counseling, compared with NFMC clients that did not receive loan modifications (Mayer, et al. 2009). Other research on loan performance has also highlighted a positive relationship between better mortgage outcomes (such as foreclosure avoidance and reduced delinquency recidivism) and significant reductions in monthly loan payments (Office of the Comptroller of the Currency and Office of Thrift Supervision 2009; Quercia and Ding 2009). Therefore, if NFMC Grantees were able to help homeowners obtain more beneficial loan modifications from lenders, one would expect to see improved client outcomes, making payment reduction a potentially important intermediate outcome of the NFMC program.

While the LPS data track several characteristics of the mortgage loan, including current monthly payment[17] and interest rate, there is no specific flag in the database to indicate a loan modification. Based on our analysis of the LPS data, we created a series of criteria to identify loan modifications based on changes in the monthly loan characteristics.

1. **Mortgage modified by lowering interest rate only:** For fixed-rate mortgages, if the interest rate was *reduced* from one month to the next, by any amount, this was identified as a lower interest rate modification.

   For adjustable-rate mortgages, we determined whether the reduction in interest rate between one month and the next exceeded a predetermined threshold and, if so, identified this as a lower interest rate modification:[18]

   - For ARMs with one-month reset periods where the next payment due date was one month after the previous payment due date (that is, where the borrower either remained current or stayed the same number of months delinquent as s/he was previously), the threshold was 100 basis points.

[17] Monthly payment includes amounts paid by the homeowner to the loan servicer for mortgage principal, interest, taxes, and insurance.

[18] The LPS data do not provide enough information to determine, with certainty, when an ARM should reset and how much the reset payment should be. Therefore, some observed ARM rate reductions may result from the index declining from its previous reset period and not from a loan modification. Because of this, to identify interest rate modifications we used a conservatively large threshold, represented by the maximum decline in an index between January 2008 (when the first NFMC client was reported into the system) and December 2009.

- For ARMs using the COFI index (San Francisco Eleventh District Cost of Funds),[19] the threshold was 200 basis points.
- For all other ARMs, the threshold was 300 basis points.

2. **Mortgage modified by increasing loan term only:** Remaining term of the loan increased from one month to the next.
3. **Mortgage modified by lowering loan principal only:** If the difference between the previous principal balance and the current principal balance was at least $5,000 greater than the maximum possible change in principal balance within the loan's terms, the loan was flagged as a lower loan principal modification. Only loans that were not paid in full and did not have a foreclosure completed in the month of the principal drop were flagged as lowered-principal modifications.
4. **Mortgage modified with a combination of lower interest rate, longer term and/or lower principal:** Any combination of the three modifications above.

If none of the above changes were observed, those loans were not flagged as having been modified in that month. Because we were only interested in identifying modifications that would likely lower the probability of a foreclosure, we deliberately set thresholds for loan modifications that were likely to result in *lower monthly payments* for homeowners. Indeed, applying these criteria to all NFMC-counseled loans that received a modification after intake showed that about 86 percent of the above-identified modifications resulted in a lower monthly mortgage payment, with 54 percent of such modifications lowering the payment by 20 percent or more. For loan modifications received by non-NFMC clients, 42 percent had a payment reduction, and 26 percent of all modifications lowered the payment at least 20 percent. Similarly, 56 percent of NFMC clients that received a loan modification before intake had a loan modification that resulted in no payment reduction; only 20 percent of such modifications reduced the monthly payment by more than 20 percent.

Sustainability outcomes

In this report, we used models to measure the impacts of counseling on homeowners' ability to cure serious delinquencies or foreclosures, and subsequently sustain those cures and remain current on their mortgages. The models estimated the independent impacts of counseling assistance through obtaining better loan modifications and achieving cures not involving modifications, as well as other aspects of counseling, such as financial planning assistance or referrals to other needed services.

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[19] The COFI is a common index used to adjust the interest rates of ARMS. It reflects the weighted-average interest rate paid by 11th Federal Home Loan Bank District (Arizona, California, and Nevada) savings institutions for savings and checking accounts, advances from the Federal Home Loan Bank, and other sources of funds.

For these models, we focused exclusively on 2008 and 2009 counseled and non-counseled loans with serious delinquencies (defined as three or more months of missed payments) or in foreclosure sometime in 2008 or 2009. We examined three outcomes for these models:

Cure. Mortgages that were in serious delinquency or foreclosure but later were observed to become completely current (i.e., no late payments and not in foreclosure) were identified as cures. Cures may have resulted from a loan modification (see below) or from some other means, such as a self-cure.

Curing loan modifications and non-modification cures. We characterized a loan as receiving a curing loan modification (or modification cure) if that loan was in serious delinquency or foreclosure at the time of receiving the modification and if it became completely current (i.e., no late payments and not in foreclosure) as a result of the modification. Loan modifications were identified by observing changes in the mortgage characteristics in the monthly LPS data. To be identified as a modification cure, the corresponding switch to current status had to have been recorded in the LPS data within one month (before or after) of the loan modification. Loans brought completely current without modifications were labeled non-modification cures.

Redefault. Loans that were cured, either through a modification or some other means, were observed for possible subsequent redefault. Because it is common to observe missed payments of one or two months that then self-cure, we restricted redefault for the sustainability models to cases where the homeowner missed three or more payments or was placed in foreclosure by the servicer. We also restricted redefaults to such new troubles for loans specifically previously cured to *current,* so potential redefaults would have a clear and simple starting point.

Foreclosure completion

Successful foreclosure mitigation activity is ultimately measured by foreclosures averted or delayed. Nonetheless, even for the most effective possible foreclosure mitigation counseling effort, some foreclosures would still occur in response to unemployment, death, divorce, natural disasters, and other “trigger” events beyond the direct control of homeowners and immune to the type of policy intervention represented by the NFMC program.

By stopping a loan from entering foreclosure (foreclosure start), counselors help owners avoid the foreclosure process and explore other options when owners have trouble making payments. Avoiding a foreclosure start is generally ideal, since it indicates that the homeowner has sought help, rather than waiting until the situation becomes too dire. Unfortunately, many clients wait until they are already in foreclosure, or are close to receiving a foreclosure notice, before they meet with a counselor. Likely for that reason, our attempts to model counseling's impacts on avoiding a foreclosure start were unsuccessful.[20]

Therefore, we attempted to measure the impact of the NFMC program's effectiveness on *delaying a foreclosure completion*. A foreclosure completion means that the owner lost his/her home to a foreclosure, short sale, or deed-in-lieu. By delaying completion of the process, the owner's ability to avoid foreclosure entirely by allowing additional time for more favorable outcomes, including becoming current on the loan, selling the property, modifying the loan, or obtaining alternative financing, increases. Delay beyond December 2010 is considered foreclosure averted, although in some cases a foreclosure may eventually take place.

Control Variables

Many factors, apart from counseling, could affect whether a home ends up in foreclosure. The more we are able to measure and include such factors in our analysis, the better our models will be at isolating and estimating the specific impact of counseling. The literature on loan performance and the impacts of counseling helps identify many likely factors. Our own early reconnaissance and initial look at NFMC quarterly report material further filled in and refined the list (Mayer et al. 2008). The data available to us, of course, limit the variables we can actually employ.

In initial modeling attempts, we used some 85 characteristics, including the state of residence, as control variables in our models. Many of these characteristics proved to have no statistically significant impact on foreclosure outcomes. This extensive list of controls also challenged the capacity of our computer hardware and software and, because combinations of characteristics could be closely correlated, made it difficult to obtain reliable estimates of the model parameters. For these reasons, we filtered down our variables to those that proved statistically significant in many, if not all, model alternatives. These variables are listed in table 4. (Summary descriptive statistics for these variables are provided in appendix J.)

Most of these explanatory variables are standard borrower and mortgage characteristics that are often included in models of loan performance. A few, however, deserve some further explanation. The income variable that we used in the models came from two different sources, depending on whether the homeowner received NFMC counseling. For homeowners receiving NFMC counseling, income is reported by the Grantees based on intake information. For non-NFMC homeowners, however, current income was not available. To obtain income for these homeowners, we had to rely on our HMDA matching, which provided income reported at the time the mortgage was originated.

[20] In many cases, NFMC clients entered counseling shortly after receiving a foreclosure notice. Therefore, the LPS data showed a foreclosure start after counseling, suggesting that counseling increased the likelihood of a loan entering foreclosure. Such a finding is not meaningful, so we did not include the results in our analysis.

To test for possible problems with the fact that income was measured at two different times for the NFMC and non-NFMC samples, we estimated all our models both with and without the income variable. The results were virtually identical under both specifications for all models, indicating that differences in the definition of the income variable where not biasing our results. Because income is such an important determinant of many outcomes we are examining, we have chosen to present the versions of the models that included the income control variable.

To control for surrounding community effects on foreclosures, we included two measures of *neighborhood quality*, both derived from HMDA data for 2006 and 2007: the home mortgage approval rate, and the median value of new home purchase mortgages. Both these variables were identified as key measures of neighborhood quality by Galster, Hayes, and Johnson (2005).

We also included a control variable for *mortgages with a loan-to-value (LTV) ratio at origination not equal to 80 percent*. This variable is included because the LTV may not reflect all mortgages originated to a property's owner. In particular, owners may finance a purchase with both a first-lien mortgage and a second lien or piggyback loan. Unfortunately, it is not possible in the LPS database to match first-lien mortgages with corresponding second liens, so secondary financing cannot be observed directly. As noted in Foote and colleagues (2009), however, a large number of loans in the LPS database have an LTV at origination equal to 80 percent, which strongly suggests that these loans were accompanied by a second mortgage. To control for the impact of second liens on loan performance outcomes, the "LTV not equal to 80 percent" dummy variable estimates any decrease in risk for homes purchased without piggyback loans.

Table 4: Explanatory Variables Used in All Models

Variable label	Description
Status at intake	Number of months delinquent (1, 2, 3, 4 or more). For NFMC loans, the status is as of the month client entered counseling; for non-NFMC loans, the status is as of the month the loan's matched NFMC pair entered counseling.
Black borrower	Equals 1 if client is African-American.[a]
Hispanic borrower	Equals 1 if client is Hispanic/Latino.[a]
Asian/PI borrower	Equals 1 if client is Asian or Pacific Islander.[a]
Other race borrower	Equals 1 if client is other race.[a]
Income	Homeowner income ($ thousands). For NFMC loans, reported at time of counseling intake; for non-NFMC loans, reported at time of mortgage origination.
FICO/credit score–original	Client's FICO score at origination.
Debt-to-income ratio	Ratio of PITI payment to income at origination.
Current interest rate	Current interest rate of client's loan (%).
Grade B/C mortgage	Equals 1 if loan is subprime (grade B or C as reported by mortgage servicer in LPS data).
ARM loan	Equals 1 if loan is an ARM.
Option ARM loan	Equals 1 if loan is an Option ARM.
Other interest type loan	Equals 1 if loan has an interest type other than ARM, Option ARM, or fixed.
Agency loan	Equals 1 if loan is a Fannie Mae or Freddie Mac loan.
Jumbo loan	Equals 1 if client's loan was a jumbo loan at origination.
Portfolio	Equals 1 is loan is held in portfolio by the originator.
Government	Equals 1 is loan is government insured.
Home mortgage approval rate (%), 2006–07	Percentage of loan applications that were approved between 2006 and 2007 in census tract where client's home is located.
Mortgage originations median amount home purchase (thousands)	Median purchase loan amount for mortgages originated in a client home's census tract between 2006 and 2007.
Monthly unemployment rate	Unemployment rate (%) reported by the Bureau of Labor Statistics for the MSA or state in which the mortgaged property is located.
Change in unemployment rate since Jan. 2008	Percentage change in the current month's unemployment rate from January 2008 rate.
Quarterly housing price index	Federal Housing Finance Agency (FHFA) quarterly house price index for the MSA or state in which the mortgaged property is located.
Change in HPI since Q1 2008	Percentage change in the current quarter's FHFA house price

Variable label	Description
	index from the first quarter 2008 index value.
Year originated	Dummy variables for loans originated in 2003 to 2008. (2002 is the omitted reference year.)
Loan-to-value ratio	The loan-to-value ratio at origination, as a percentage.
Dummy for LTV not = 80%	Equals 1 if loan-to-value ratio at origination is not 80 percent.
Original loan amount	Amount of the original mortgage loan ($ thousands). (This variable is used in the loan modification model to control for the size of the loan relative to the reduction amount.)

a Whites were the omitted race category in the models; that is, the values of the parameter estimates for blacks, Hispanics, and so on, are relative to white clients.

Additional control variables were used in the models to measure counseling impacts and their relationship to other factors, such as the start of the Home Affordable Modification Program and interactive effects with other borrower, loan, and neighborhood characteristics. These issues are discussed in the next two sections.

Modeling separate effects of counseling before and after HAMP

The U.S. Department of the Treasury put the Home Affordable Modification Program in place in 2009 as a component of the Making Home Affordable Program, a major piece of the federal government's response to the ongoing foreclosure crisis. Under HAMP, mortgage servicers receive incentive payments for modifying the loans of eligible borrowers. The loan modifications must follow specific rules, which are intended to produce affordable terms that will allow homeowners to remain in their homes. Participation is voluntary, but once enrolled, servicers are expected to follow HAMP's guidelines and approve modifications for all borrowers that meet the program's eligibility requirements.

While it is not the purpose of this study to evaluate HAMP, it was important to understand how this significant change in the policy landscape might have affected the ways in which the NFMC program was operating. In particular, we suspected that *counseling's effectiveness could change as a result of the industry's responses to HAMP*. For example, under HAMP, servicers are expected to reduce a monthly mortgage payment to 31 percent of the owner's income. In principle, this could mean the loan modifications would be less subject to negotiation because servicers would be using an objective and standard net-present-value calculation for evaluating HAMP requests.

Under these circumstances, counseling may have had less effect on a client's loan modification because the modification terms would have been less dependent on a skilled negotiator advocating on the owner's behalf. On the other hand, HAMP also provides a financial incentive to servicers that might allow counselors to make additional headway in negotiations;

and, counseling might be especially important to homeowners' successes in garnering the expanded array of modifications. Further, our web surveys and case study interviews indicated that servicers may not have always followed HAMP guidelines correctly or offered HAMP modifications when the borrower was eligible for one. Therefore, counselors may still have played an important mediation role in ensuring that borrowers obtained the modifications they were entitled to under HAMP.

To account for these possible HAMP effects, in all our models we included variables that measure separate counseling effects in the periods before and after HAMP began. We used April 1, 2009, as the effective start date of the program, which divided our loan observations into two periods: before HAMP (January 2008 through March 2009) and after HAMP (April 2009 through December 2010). We employed this approach in part because we did not have access to any data that would allow us to identify directly mortgages that participated in or received modifications under HAMP. Borrower participation in HAMP is not reported to NW America by NFMC Grantees and is not tracked by servicers in the LPS data. And, although we can identify loan modifications in the LPS data, we cannot distinguish between HAMP and non-HAMP modifications. Further, as we discuss in more detail below, the presence of HAMP could be expected to influence outcomes for borrowers that do not receive HAMP modifications.

Models that estimate counseling's effect on curing a seriously delinquent loan have variables that indicate whether a client *entered counseling* on or before March 31, 2009 (before HAMP). Models that estimate counseling's impact on a loan modification amount have a variable that indicates whether a modification took place after entry into counseling (without regard to intake date). This variable, then, estimates counseling's overall effect on loan modification amounts. We also include a variable that indicates whether a client received a loan modification after intake, and also after March 31, 2009. This variable measures the additional impact of counseling on loan modifications that took place after HAMP was in place.

Models that estimated the impact of counseling on a loan modification amount and redefault rates have a variable that indicates whether the loan modification or cure happened *after intake.* These counseling variables measure the overall effect of counseling, without regard to when the loan modification or cure occurred. However, these outcomes can also be affected by HAMP, and so we include additional variables that measure any change to counseling's effect on loan modification amounts and redefault for loans that were modified or cured after intake *and* for which the modification or cure happened after March 31, 2009. (See table 5.)

Table 5: Counseling and HAMP Variables Used in Outcome Models

Mod. amount	One dummy variable (Entered_counseling) that measures the impact of counseling on the reduction in a monthly loan payment resulting from a loan modification in all periods (either before or after HAMP).	A dummy variable (mod_post_apr09) that = 1 for all loan modifications after March 2009. This variable measures the change in loan modification amounts for all loans after HAMP began, whether or not an owner received counseling. A dummy variable (mod_post_apr09_int) that = 1 for all loan modifications after intake and after March 2009. This variable measures any change in the counseling effect after HAMP.
Mod. cure	Two potential counseling effects: one dummy variable for clients entering counseling after March 31, 2009 (*EC_AFT_MAR09)*, and another dummy variable for clients entering counseling before April 1, 2009 (*EC_BEF_MAR09*).	A dummy variable *(AFT_MAR09)* that = 1 for all periods after March 2009. This variable estimates the change in the probability of a mod cure after March 2009.
Non-mod. cure	Two potential counseling effects: one dummy variable for clients entering counseling after March 31, 2009 (*EC_AFT_MAR09)*, and another dummy variable for clients entering counseling before April 1, 2009 (*EC_BEF_MAR09*).	A dummy variable *(AFT_MAR09)* that = 1 for all periods after March 2009. This variable estimates the change in the probability of a non-mod cure after March 2009.
Mod. cure redefault	One dummy variable *(Post_counseling_mod)* that = 1 for loans with mod cures after start of counseling. This variable estimates the impact of counseling on redefault, without regard to whether the cure happened before or after HAMP.	A dummy variable *(mod_post_apr09)* that = 1 for loans with mod cures after April 2009. This variable measures the change in the probability of any loan (whether an owner received counseling or not) curing after HAMP. A dummy variable *(Interaction term)* that = 1 for loans with mod cures after counseling and after March 31, 2009. This variable estimates the change in counseling's effect on redefault for cures after HAMP.
Non-mod. cure redefault	One dummy variable *(Post_counseling_cure)* that = 1 for loans with non-mod cures after start of counseling. This variable estimates the impact of counseling on redefault, without regard to whether the cure happened before or after HAMP.	A dummy variable *(cure_post_apr09)* that = 1 for loans with non-mod cures after April 2009. This variable measures the change in the probability of any loan (whether an owner received counseling or not) curing after HAMP. A dummy variable *(Interaction term)* that = 1 for loans with non-mod cures after counseling and after March 31, 2009. This variable estimates the change in counseling's effect on redefault for cures after HAMP.

Foreclosure completion	Two potential counseling effects: one dummy variable for clients entering counseling after March 31, 2009 (*EC_AFT_MAR09)*, and another dummy variable for clients entering counseling before April 1, 2009 (*EC_BEF_MAR09*).	A dummy variable *(AFT_MAR09)* that = 1 for all periods after March 2009. This variable estimates the change in the probability of a foreclosure start or completion after March 2009.

As an added benefit, our analyses may shed more light on HAMP's benefits for troubled homeowners. From its inception through the first quarter of 2011, the HAMP program has resulted in 376,000 permanent modifications (Office of the Comptroller of the Currency and Office of Thrift Supervision 2009, 2011). Despite these successes, the results have fallen short of the goals initially set for the program and pale in comparison to the estimated 4.1 million loans in serious delinquency or foreclosure as of May 2011 (LPS 2011). Although HAMP was never intended to help all troubled homeowners, the relatively small number of modifications has prompted many to criticize HAMP and some to label the program a failure.

While it is outside the scope of this evaluation to determine whether HAMP has been a success, our research suggests that the program has had more benefits for homeowners than its critics credit, reaching beyond the numbers of people directly assisted by the program. As noted, HAMP provides a financial incentive to servicers to make loan modifications that follow specific program rules, but NFMC counselors who responded to our web survey and key informants interviews indicated that HAMP has also had a larger impact on servicer capacity and behavior.

In particular, HAMP established a more standardized method to evaluate loan modifications and provided incentives to increase servicers' capacity to process loss mitigation solutions. In fact, a recent U.S. Treasury (2011) report indicates that "when [HAMP] began, most servicers did not have the staff, procedures, or systems in place to respond to the volume of homeowners struggling to pay their mortgages, or to respond to the housing crisis generally. Treasury sought to get servicers to … improve their operations quickly, so as to implement a national mortgage modification program." Through our key informant and case study interviews, staff members at counseling agencies have told us that servicers seemed to frequently use HAMP as a template for their own proprietary loan modifications and other workouts. Further, some HAMP modifications may substitute for non-HAMP modifications that would otherwise have occurred.

Nevertheless, these overall HAMP results, while compelling, are not definitive. It is possible that servicers and counselors may have improved their performance even without HAMP. Certainly we know that, since the beginning of the foreclosure crisis, market participants have instituted best practices over time as they learned strategies and methods to increase effectiveness. We know as well that counseling organizations and mortgage servicers have increased their capacity to deal with the rising volume of troubled mortgages. Some of these changes might have been a result of the introduction of HAMP, while others might be coincidental. Without more precise data and more detailed analysis, it is impossible to know for sure.

We do attempt to account for the overall increase in capacity and efficiency by including monthly counter variables in our outcome models. In the models that estimate the NFMC program's impact on the likelihood of curing a loan, the counter starts with the first month of the delinquency spell. For redefault models, the counter starts when the loan is cured. In the models that estimate the NFMC program's impact on foreclosure completions, the counter starts in January 2008. These variables provide estimates for changes to the lending/servicing environment above and beyond those that happened around the time HAMP was enacted.

Interaction models

In addition to variables that allow us to identify the impact of HAMP on counseling outcomes, we estimated models that interacted borrower, loan, and neighborhood characteristics with counseling that occurred either before or after HAMP started. For ordinary least squares (OLS) regressions, estimating such interactions is straightforward. For the interactions estimated for logistic regression (LOGIT) models, however, we employed a method recommended by Norton, Wang, and Ai (2004) that is required because of the nonlinear relationship in LOGIT models between explanatory variables and the dichotomous outcome used as a dependent variable.

The results of these interaction models indicate whether counseling has differential effects for particular borrowers, loans, or circumstances. For example, if we find a positive and significant interaction effect of income and counseling on the probability of curing a seriously delinquent loan with a modification, it means that counseling has a greater impact for higher income homeowners than for lower income ones. A negative and significant interaction effect would mean that lower income homeowners, on average, benefit more from counseling. If there is no significant interaction income effect, it means that counseling has the same impact regardless of an owner's income.

The following discussion provides more details about each outcome and the methods used to assess counseling's impact.

Models of Program Effects

We developed multivariate models to estimate the effects of the NFMC program on counseled homeowners, using the data sources presented in the previous section. Several key issues might affect the accuracy of our model estimates, including the problem of selection bias into the NFMC program and the inability to control for potential differences in servicer behaviors. We attempted to address any potential modeling issues.

Potential Modeling Issues

Program selection and omitted variable bias

A key challenge presented in evaluating the effects of the NFMC program is a common problem in most multivariate analyses, that of *selection bias.* Put simply, certain factors that influence an owner's decision to enter counseling may also affect his or her observed outcomes. For example, people who enter counseling may be more proactive when dealing with financial matters, and so would be able to improve their situations even without outside help. For such people, it would be incorrect to attribute positive outcomes entirely to the NFMC-funded counseling. Alternatively, people who decide to enter counseling may have relatively poor financial management skills, thus rendering them less able to follow through with a counselor's suggested plan of action after receiving NFMC-funded services. In these cases, the estimated program effect may *understate* the impact of counseling. Or, specific events that took place during our observation period, such as a job loss, that we are unable to track may influence the decision to seek NFMC counseling services or the eventual loan outcomes.

Econometricians have long recognized the problems of variable bias and have developed techniques to produce unbiased estimates. A common method is to use instrumental variables that predict whether a person seeks treatment but do not influence the outcome of interest. In a recent analysis of counseling (Collins and Schmeiser 2010), the authors measure an organization's outreach advertising in Chicago as an instrumental variable that predicts entry into counseling but does not affect outcomes for clients who receive counseling. The results of this analysis suggest that the factors influencing selection into counseling affect outcomes negatively.

Unfortunately, a similar instrumental variable approach does not work here because we are analyzing counseling across many different cities, so we do not know when particular Grantees and Subgrantees made outreach efforts that would influence selection into counseling. Nor do we have an alternative instrumental variable available that would be correlated with the decision to enter counseling but *not* to the different outcomes that concern us.

Using observations before counseling entry to correct for possible selection bias

Since standard correction methods were unavailable, we chose an alternative approach to address possible selection bias. Our approach took advantage of the fact that we had observations of NFMC client loans before start of counseling. These observations could give us information about the impact unobservable characteristics of NFMC clients on our model estimates.

We specified a variable, *preEC,* that equaled 1 for observations for NFMC clients before their entry into counseling and 0 for clients after their entry into counseling. The variable *preEC* also equaled 0 for all observations for non-NFMC loans. Including this dummy variable in our models allowed us to estimate how outcomes differed for NFMC clients *before receiving counseling services*, compared with the non-NFMC sample. The parameter estimate on this variable represents the relative net impact of unobservable characteristics of the NFMC sample relative to our non-counseled comparison sample.

If, for example, the estimated parameter for *preEC* is statistically significant and positive, it means that the net effect of unobservable characteristics of NFMC clients makes them more likely to have positive outcomes *without counseling* than people who never sought NFMC counseling. If, on the other hand, the *preEC* parameter is significant and negative, then NFMC clients are less likely to have positive outcomes than our comparison group of non-counseled borrowers. Finally, if the *preEC* parameter is not statistically significant, then unobservable characteristics do not have a measurable impact on the outcome in question. Another way to interpret the *preEC* parameter is that it represents the performance of the NFMC-counseled population *if the NFMC program had not been available.*

To determine the net program effect on NFMC clients, we subtracted the *preEC* parameter estimate from the parameter estimate for a second dummy variable, *EC,* that takes the value of 1 for all post-counseling intake observations of NFMC loans.[21]

Estimated net program effect = $\beta_{EC} - \beta_{preEC}$

The difference between the two parameters subtracts out the potential impact of unobservable characteristics of NFMC clients on outcomes and therefore corrects for any characteristics that affect entry into counseling or the ability of counseling to help clients achieve the particular outcome being modeled.

Figure 1 illustrates this impact using the example of a cure model. The “cure rate of non-NW borrowers” (bottom dotted line) indicates the baseline cure rate estimated for the non-NFMC comparison group. This rate is estimated with both *preEC = 0* and *EC = 0.* The “impact of NW client unobservables” (lower dashed line) represents the cure rate for NFMC clients *without counseling* and is estimated with *preEC = 1* and *EC = 0*. That is, the net impact of unobservables is estimated using observations of NFMC clients in periods before they enter counseling. The net impact of EC is represented by the higher dashed line and is estimated with both *preEC = 1* and *EC = 1*—that is, from client observations *after* entry into counseling. As the figure shows, the total cure rate for this group is the sum of the effect of the NFMC client

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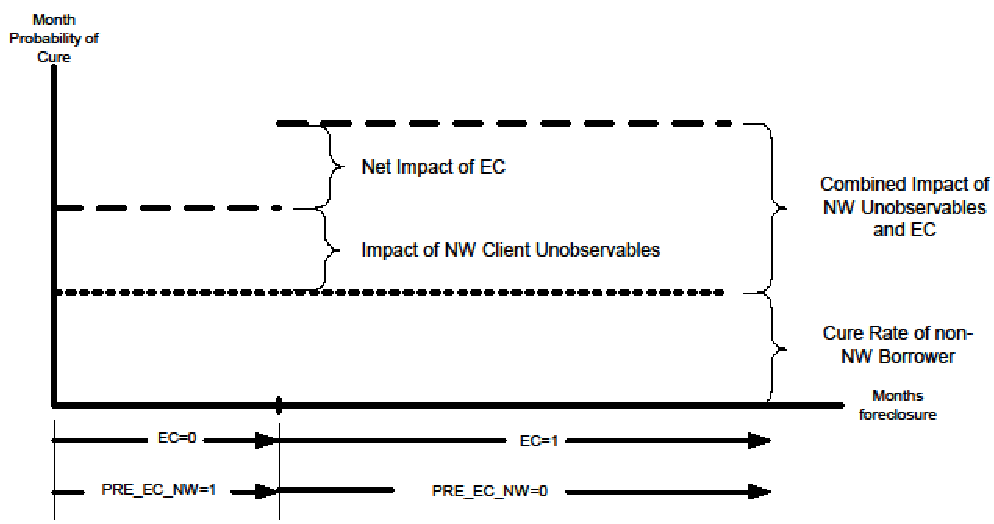
[21] The actual name and form of the *EC* variable indicating entry into counseling varies according to the model. The specifics are discussed in the individual model descriptions .

unobservables and the program effect. The net program effect, therefore, is the difference in the two dashed lines.

Figure 1: Conceptual Framework for Estimating NFMC Program Effects



Net Impact of Counseling on Foreclosure Cure in the Presence of Unobservables (Selection Bias) for Counseled Borrowers

The program effect described above applies to *NFMC clients only*—that is, it estimates the impact of the NFMC program conditional on the fact that a homeowner chose to get counseling help. This differs from the program effects we had published in the preliminary NFMC evaluation reports (Mayer et al. 2009, 2010). In those earlier models, we did not include the *preEC* parameter, which affected our model estimates in two ways. First, our estimate of the non-counseled population included both the non-NFMC comparison sample *and* the observations of NFMC loans before receiving counseling. In effect, our baseline performance estimate was an average of the loan performance of these two groups. Second, our estimate of net program effect was relative to this average, not relative to the performance of non-counseled NFMC loans. This meant that any unobservable characteristics of NFMC clients that affected our outcomes would have biased our estimates of program effects.

Although we could use the *preEC* variable selection bias correction in most of our models, we could not use it in our loan modification or foreclosure completion models. These two exceptions required different approaches.

Correcting for possible selection bias in loan modification models

In models that determine how NFMC counseling affected payment changes from a loan modification, we cannot specify a variable that measures performance before entry into counseling because modifications before intake can be observed in only one period, rather than over multiple periods. To correct for potential selection bias in such models, we estimated a parallel set of models using *only* the NFMC-counseled loans. In those models, we compared the performance of the NFMC loans *before* counseling to their performance *after* counseling started. In this way, the selection bias problem was largely avoided since we were not comparing the performance of NFMC loans to non-NFMC loans.

Correcting for possible selection bias in time to foreclosure completion models

We cannot specify a variable that measures performance before entry into counseling for models that determine NFMC counseling's effect on time to foreclosure completion because almost no clients entered counseling after a foreclosure was completed.

For models that analyze time to foreclosure completion, our attempted solution to potential selection bias was to compare the time to foreclosure completion under two "states of the world:" one in which NFMC program-funded counseling services were available, which we designated the world with counseling (WWC), and one in which program services were not available, referred to as the world without counseling (WWOC). We modeled the time to foreclosure completion under each state of the world using separate LOGIT models that estimated the monthly probability of foreclosure completion among loans already in foreclosure.

In the WWOC model, we estimated a loan's time to foreclosure completion with two types of censored observations: (1) for loans in which a foreclosure was not completed during the observation period and (2) for borrowers who began to receive counseling from NFMC program grantees. The observations for people who received counseling were artificially censored at the time they entered counseling. That is, when we estimated the WWOC we ignored any observations of outcomes for NFMC clients that occurred after counseling began. Because the model did not include the actual time to foreclosure completion for mortgages on homes owned by people who entered counseling, the estimation results approximated the waiting time to foreclosure completion distribution *as if the NFMC program did not exist*.

In the WWC model, we analyzed a loan's time to foreclosure completion and only censored observations that did not have a foreclosure complete during the period for which we had data. Loans in which borrowers entered counseling were included throughout the period of observation. The results of this model estimated time to foreclosure completion when NFMC program services were available to homeowners. We used the estimates from both models to determine if the differences in time between WWC and WWOC were statistically significant.

Potential issue related to servicers included in sample

Because we use LPS data to measure loan performance over time, we have to restrict our analyses to NFMC clients whose loans are included in the LPS database. This raises a potential problem because the LPS data does not include information from all loan servicers. Therefore, the sample of NFMC loans that are matched to LPS may not be representative of servicers for all NFMC loans. Our use agreement with LPS restricts us from conducting any analyses by servicer. Therefore, we are prohibited from reporting analyses that compare the share of loans serviced by a particular company in the matched sample with the share of that servicer's loans among all NFMC clients. Such results would provide information about the servicers who report data to LPS. However, we can report that a large share of all NFMC clients' loans are serviced by the 10 largest servicers of single-family mortgages, as are loans within the matched sample. Moreover, any discrepancy between the share of all NFMC clients' loans serviced by a given firm and the share of such loans in the matched sample serviced by the same firm raises a potential bias only if that firm, for some reason, handles loan modification and/or forbearance requests differently from other servicers.

Servicers may have different processes and procedures when evaluating loan modification and other loss mitigation proposals from borrowers that result in some servicers being more or less likely to grant loan modifications. This may produce different outcomes for similarly situated borrowers whose loans are serviced by different companies. To the extent that the servicers represented in the NFMC sample are more or less likely to approve particular loss mitigation requests from their borrowers, this may bias estimates of the NFMC program effect. In other words, assume that most servicers are unlikely to provide a loan modification, but the servicers included in the NFMC sample happen to have their loans serviced by the relatively small number of servicers who are more likely to approve loan modifications. If this is the case, the relatively high share of NFMC clients receiving loan modifications is not a function of the program, but of the fact that NFMC clients in the sample disproportionately have their loans serviced by companies who are more willing to approve loan modifications. Given our review of the servicers included in the matched sample, however, compared to the NFMC population, we do not think that there is any empirical foundation for concluding that the distribution of the types of servicers differs between the matched sample and the NFMC client population.

Another possible source of selection bias is that NFMC Grantees may select clients to serve who are more likely to achieve better outcomes. Such "cherry picking" behavior, if it existed, might make the performance of the NFMC program appear better than it would have been if clients were assigned randomly for treatment in the program. We find no reason to believe that such cherry picking takes place, however.

First, there is no financial incentive for counselors to serve only "easy" clients as NFMC program compensation is not based on obtaining particular results. Grantees are paid a flat rate for providing a predefined level of counseling, regardless of the outcome achieved for a client. Second, the cherry-picking hypothesis presupposes that counselors can readily distinguish between easy and difficult clients at intake. In reality, a counselor would likely need to assess the client's situation thoroughly before such a determination could even be attempted. Further, the ease at which a homeowner's case can be resolved often depends a great deal on negotiations with the loan servicer, which cannot be assessed in advance.

Third, our surveys and interviews with NFMC Grantees informed us that counselors deal with all manner of clients who come through their doors and do not turn people away because they have difficult situations. Indeed, the foreclosure data cited above indicate that counseled homeowners tend to have far worse circumstances than typical homeowners.

Potential bias selecting comparison group from LPS loans matched to HMDA

Our requirement that all non-NFMC LPS loans used in the analysis be matched to HMDA records, so we could include race, income, and census tract characteristics in our models, resulted in a large number of potential non-NFMC loans being eliminated from the sample. If the HMDA matching success could be deemed independent of factors that would affect our foreclosure outcomes, then this would not present a problem. It is possible, however, that certain types of loans or borrowers are more likely to match successfully to the LPS database than others, and that excluding the non-matching loans might bias our results.

While we could see no reason why HMDA matching success should be correlated with our foreclosure outcomes, we nonetheless tested for this potential problem by selecting entirely new comparison loans, using the same propensity scoring methodology described above, but from a random sample of LPS loans that were *not* required to be matched to HMDA data. We then reran our NFMC versus non-NFMC models using this new comparison sample. The results were consistent with those that we obtained when using the HMDA-matched comparison sample. This confirmed for us that the HMDA matching requirement did not introduce any bias into our sampling selection or analysis.

Given that HMDA records provide important characteristics that would be unavailable to us otherwise (namely race, ethnicity, and income), we chose to continue to use the HMDA-matched loans as the basis for selecting our non-NFMC comparison samples. In principle, as another approach we could have used a probabilistic match in which we assigned race and income to individual loan records based on the distribution of such data in HMDA records. This process, however, could have introduced loan-level errors, which we believe would be more problematic than any potential bias introduced by restricting our propensity scoring selection process exclusively to non-NFMC LPS loans matched to HMDA.

Contamination of non-NFMC sample

One aspect of our modeling approach relies on our comparison sample of LPS loans that were not matched to an NFMC-reported counseling unit. We have designated the non-NFMC comparison sample and have assumed that this group did not receive NFMC counseling. There are two potential issues with this assumption. First, some loans in this group may have received NFMC counseling but failed to have been matched to an LPS loan. The failure to match might have occurred either because that loan is not in the LPS database or because information (i.e., servicer name, loan identification number) was not available to make a successful match. Second, loans in the non-NFMC comparison group may have received counseling assistance outside the NFMC program that would not be recorded in Grantees' production data. This non-NFMC counseling might have been provided by groups not participating in the NFMC program at all or by NFMC Grantees or Subgrantees but supported by other funding sources.

In either case, we may have a slightly contaminated sample in that some members of our "non-counseled" comparison group may have indeed received some counseling. Even if this is the case, however, we do not believe that it undermines the positive impacts of the NFMC program that we have reported for two reasons.

Bear in mind that, as much as we find that housing counseling improves loan modifications and sustainability of cures, these impacts will be *understated* if the comparison group also included some counseled loans that would have benefited from the same effects. Put another way, if some of the non-NFMC comparison sample is receiving counseling treatment, then that group's outcomes would look relatively *worse* if those homeowners could be identified and removed from the sample and, consequently, the (positive) difference between the performance of the NFMC and non-NFMC samples would be even greater.

Moreover, in previous analyses we ran analyses both with and without the non-NFMC comparison sample. For the latter, we used only the NFMC counseled loan sample but relied on outcomes, such as loan modifications, that occurred before and after counseling intake to measure the effect of counseling. (This same distinction between outcomes before or after counseling intake was made in models estimated with both NFMC and non-NFMC loans.) These "NFMC only" models yielded very consistent program effects from those estimated with both the NFMC and non-NFMC samples, which tells us that the non-NFMC sample is not biasing our results significantly.

Modeling Approach

Monthly payment reductions

The monthly payment reduction model estimated counseling's effect by comparing the reductions in monthly payments in loan modifications for NFMC clients after they entered counseling with (1) loan modifications that NFMC clients received before entry into counseling and (2) loan modifications received by owners who never received NFMC counseling. As discussed earlier, we estimated an overall counseling effect for all modifications that took place after a client entered counseling and another variable that measures the change in counseling's effect for modifications that took place after HAMP started.

In addition to the control variables presented in table 4, we included a control variable that measures whether a loan was current in the previous month when LPS reports the change resulting from the loan modification.[22] For this outcome, the dependent variables were the amount of reduction in the monthly mortgage payment (payment increases were coded as a negative reduction), expressed as a dollar amount and as a percentage of the original monthly payment. Because we were dealing with a continuous variable as an outcome, we used a standard ordinary least squares regression to model these outcomes.

Sustainability of loan modifications

The potential for recidivism has been identified by servicers, lenders, and investors as a significant factor in their reluctance to provide loan modifications. The claim is that the costs and potential economic losses associated with providing a modification, which includes temporarily extending the period of loan non-payment and risking an eventual redefault and foreclosure loss, can be higher than those from foreclosure alone. In addition, servicers and investors note that many homeowners cure their defaults on their own, without modifications, so it may be economically logical to simply wait to see whether such cures occur after either no action or merely forbearance granted by servicers.

In response, however, housing counseling organizations and homeowner advocates note that many loan modifications, particularly those at the beginning of the foreclosure crisis, did not substantially reduce monthly payments for homeowners. Consequently, homeowners were just as likely to find these modified loans unaffordable as they their original loans. Groups with this perspective claim that modifications that reduce monthly payments to truly affordable levels, based on current household income, can be sustainable and economically beneficial for both the homeowner and the lender.

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[22] The addition of the loan status before modification is a change in our model specification from our November 2009 report.

Counseling may affect recidivism by increasing the size of loan modification payment reductions, by improving the quality of non-modification workouts such as payment plans, or both. Whether a modification is obtained or not, counseling can also help borrowers meet payments through improved budgeting and other financial advisory assistance, In this part of our analysis, we looked at the experience of counseled and non-counseled borrowers in sustaining the cures of their serious delinquencies and foreclosures, to begin to measure the extent of recidivism and, especially, the impact of counseling on its prevalence.

Since we must observe loans over sufficient time for them to be cured and subsequently to be sustained or to redefault, this analysis uses round 1 and round 2 NFMC loans counseled between January 2008 and December 2009 and their comparison group of non-counseled loans. Loan performance is observed though 2010, however, to provide more time for post-cure observation.

Our analyses used two measures of sustainability. First, we considered only those loans whose defaults or foreclosures were cured during the two-year observation period. For this analysis, cured loans were those that become current, in many cases with the help of loan modifications and/or NFMC counseling. Our first measure of sustainability was simply the *percentage of cured loans that have not gone back into serious delinquency or foreclosure* in the period for which we were able to observe them.[23] For this outcome, we examined whether homeowners who received loan cures in combination with counseling had a higher percentage of sustained cures, and a corresponding lower percentage of renewed defaults, than homeowners who had their loans cured without the benefit counseling. We examined separately the redefault rates for loans cured with modifications and those without. We undertook both descriptive tabulations and multivariate statistical analysis in assessing this impact of counseling.

Our second sustainability measure took into account the fact that a default cure cannot be sustained unless the cure is obtained in the first place. This second measure looked at all seriously delinquent and foreclosed loans, not just those that cured, and computed the expected likelihood that they were cured, to combine with the likelihood that the cure was then sustained through the observation period. We again compared this measure for loans that received cures with and without the benefit of counseling and separately for cures with modifications and without. This analysis of obtaining cures was coupled with the assessment of differences in sustaining cures discussed in the previous paragraph. This analysis, therefore, examined a possible two-stage effect of counseling on sustainability: increasing the likelihood of a cure given default and the likelihood of avoiding recidivism given a cure.

[23] In this sustainability analysis, for a loan to be “cured,” we required that the foreclosure status be cleared and that the loan became current on all its monthly payments.

Our sustainability cure models used LOGIT models to estimate the probabilities of a serious delinquency and a subsequent loan redefault while controlling for relevant loan and borrower characteristics and the use of NFMC counseling.

Foreclosure completion

Owners lose their homes when a foreclosure is completed. To determine if the NFMC program helped owners avoid such an outcome, we estimated LOGIT models that measure counseling's effect on the probability that an NFMC client's loan will have a foreclosure completion by the end of December 2010, which was the last observed month in our database. As discussed earlier, because we cannot estimate a model that includes a variable identifying observations before an NFMC client enters counseling, we used censoring rules that estimated models for a world without counseling and a world with counseling. In the WWC model we include variables that measure separate counseling effects for clients who entered before or after HAMP's start. There were no counseling variables in the WWOC model because the NFMC clients' observations were censored at the time that they enter counseling. The net program impact is estimated by the difference in the survivor curves of the WWC and WWOC models.

The results of the foreclosure completion models were used to measure the NFMC program's financial benefits. Foreclosures create costs that are borne by homeowners, investors, and local governments (HUD n.d.). Therefore, any reduction in the number of foreclosures completed represented a significant financial benefit. We estimated the aggregate financial impact of the NFMC program.

LOGIT Model Simulations

All the models presented in this report, except those that estimate the NFMC program's effect on loan modifications, used logistic regressions that estimated the impact of counseling on the likelihood of an event happening in a given month. The output for these models report parameter estimates and odds ratios for each explanatory variable. Odds ratios provide information about the impact of explanatory variables but are difficult to interpret. Therefore, to make the results more accessible, we conducted simulations using the parameter estimates for each LOGIT model and the mean value for each variable used in a particular model to generate estimated probabilities of an event occurring in a particular month. These probabilities change over time because we included counter variables (such as the length of a delinquency spell) as explanatory variables. Therefore, we calculated monthly probabilities and used these estimates to generate cohort analyses that estimated the share of loans, starting at a particular point, that would have had an outcome (such as a loan modification cure) in a particular month. Based on this estimate we construct a survivor curve for cohorts assuming that they did or did not receive counseling. An example of this calculation is provided in appendix R. This technique allows for a more accessible presentation of the NFMC program's effect on outcomes.

Findings

This section details the results from our modeling of outcomes for the NFMC program clients.

NFMC Program's Effect on Loan Modifications

Based on information collected from Grantees during our case study site visits and telephone interviews, an important service provided by NFMC counselors is to call a client's loan servicer to discuss the possibility of modifying the mortgage to make it more affordable. Before contacting the servicer, NFMC counselors use the expense and income information provided by the client to determine what type of loan modification would result in a new monthly payment that the homeowner could afford. Non-NFMC homeowners, of course, can contact loan servicers themselves and request loan modifications. For this analysis, we estimated whether loan modifications received for counseled clients were more beneficial than modifications negotiated outside the NFMC program.

As described earlier, the LPS data allowed us to identify loan modifications, although not with absolute precision. Our method for identifying modifications was based on observed changes in loan terms that were most likely to have reduced the homeowner's monthly payment. Using this methodology, we identified modified loans within both the NFMC and non-NFMC samples. We also observed the reduction in monthly mortgage payment (for principal, interest, taxes, and insurance) reported by the servicer after the modification, both as an absolute dollar amount and as a percentage change from the previous payment level.

About a quarter of loan modifications received by NFMC clients occurred before their meeting with an NFMC counselor. As with the other outcomes we examined, we did not count these pre-counseling modifications as a program effect when we estimated the program impact: pre-intake modifications were included with non-NFMC loan modifications in the models that used non-NFMC loans. In the models that used only NFMC loans, pre-intake modifications were compared with post-intake modifications. Although both clients received counseling, pre-intake modifications happened without the assistance of an NFMC counselor; in that regard, they are like non-NFMC loans, and therefore are a valid measure of what would have happened without counseling.

Key informants that we interviewed for the NFMC evaluation[24] said that the overall quality of modifications provided for all borrowers had improved because of the standards promulgated by HAMP. This is true even for non-HAMP modifications. In other words, HAMP set a new de facto benchmark for loan modifications in the industry, and many borrowers were benefiting from this benchmark, whether or not they received an actual HAMP modification.

[24] We report our findings regarding the impact of HAMP and other issues in Mayer and Temkin (2010), which is included in appendix C.

To test this assertion, we included in our models that estimated NFMC impact on clients' loan modifications a variable that indicated whether a loan modification took place after March 2009.

To determine the effect of the NFMC program on a client's loan modification, we ran OLS regression models that estimated the payment reduction while controlling for other factors that might affect the amount that the monthly payment was lowered. We used the same control variables as in our previous models, but also added the original loan amount to control for the size of the loan, since larger loans would tend to have larger monthly payments and therefore might be expected to receive larger payment reductions. As with the other outcomes, we estimated a model comparing NFMC with non-NFMC loans, as well as models measuring counseling effects for only the NFMC loans.

All models yielded consistent, statistically significant results indicating that NFMC-counseled homeowners received modifications from their servicers with larger monthly payment reductions than homeowners who received modifications without the benefit of NFMC counseling (tables 6 and 7; full model results may be found in appendices K and L). When using information about non-NFMC loans, 2008 and 2009 NFMC client loans that were modified paid *$176 less*, on average, a month than the non-NFMC-counseled loans that received modifications. This corresponds to an average payment that was 7.8 percent less than would have been the case without counseling.[25]

Our estimated impact of counseling on the loan modification amount is about $90 lower than we reported in our previous report (Mayer et al. 2010,38). The main reason for this difference is that the final estimate is based on a model that includes loan observations with missing credit scores and DTI ratios. About 20 percent of observations were missing a credit score and 40 percent of observations were missing DTI information. In our previous analyses, the model estimation procedure dropped these missing observations, which is normal practice when estimating models from data with missing values for one or more explanatory variables (Allison 1982).

For this final report, however, we wanted to include these loans because borrowers missing credit scores and DTI information at origination may reflect risks that differ from the overall average. A missing credit score might not only indicate that the borrower's credit history was unknown but that the borrower represented a greater credit risk. In other words, *not* having a credit score conveys information that we wanted to capture in our model estimates. Therefore,

[25] Results from the models estimated with only NFMC loans found similar positive program effects, when compared to the model that uses non-NFMC loans. The overall counseling effect from the NFMC-only model showed that counseling through the NFMC program resulted in loan modifications that had monthly payments *$142 less*, on average than modifications that took place before an NFMC client entered counseling or about 7.8 percent of the pre-modified monthly original payment.

we transformed the continuous credit score and DTI variables into categorical variables that included a separate “missing” category.

The observations missing both credit score and DTI information, on average, had loan modifications with lower payment reductions than observations that included at least one of these variables. More important, the average difference between NFMC and non-NFMC clients for observations missing DTI and credit score information was smaller than for observations not missing this information. Therefore, excluding observations missing data biased upward the estimate of the NFMC program effect on loan modifications.

The program effect on the size of the payment reduction was the same whether the loan modification took place before or after the start of HAMP. The coefficient of the interaction term between the presence of HAMP and whether the modification was received post-counseling was not statistically significant, meaning that the $176 (7.8 percent) average additional payment reduction from counseling applied to both pre-HAMP and post-HAMP modifications (tables 7 and 8). On the other hand, our analysis found that loan modifications for *all* owners (whether or not they received counseling) had greater payment reductions after HAMP took effect. The average modification had a payment reduction that was $162, or about 6.5 percent, more after HAMP, compared with pre-HAMP. Therefore, counselors, even in an environment when loan modifications were increasingly determined with relatively common standards and where the size of the monthly payment reductions were increasing overall, were still able to help clients get modifications with bigger payment reductions than what they would have received without assistance.

We also modeled the effects of different levels of counseling on payment reductions. The results from the NFMC vs. non-NFMC model showed that all three counseling service levels provided benefits to homeowners. Interestingly, before-HAMP clients who received level 1 counseling experienced larger payment reductions than did clients who received such counseling after HAMP. The average modification had a monthly payment reduction that was $191 greater with Level 1 counseling before HAMP, but averaged $102 after HAMP. There were no differences in the amount of monthly payment reductions resulting from counseling for level 2 ($159) in the pre- or post-HAMP environment. For level 3 counseling, the higher payment reductions, an additional $234, were for modifications received after the start of HAMP. Level 3 counseling increased the average monthly payment reduction for pre-HAMP modifications by $181. The results based on the percentage of the monthly payment also showed a larger effect for Level 1 counseling before HAMP and a more positive effect of Level 3 counseling in the post-HAMP environment (tables 7 and 8).

Table 6: OLS Regression Model Estimates for Counseling Effects on Dollar Reduction in Monthly Payment Resulting from Loan Modifications

	Average Additional Reduction in Monthly Payment		
	Parameter estimate	95 percent confidence interval	
NFMC vs. Non-NFMC Model:			
Effect of any counseling, pre- and post-HAMP[a]	$176	$154	$198
NFMC vs. Non-NFMC Model:			
Level 1 counseling, pre-HAMP	$191	$161	$220
Level 1 counseling, post-HAMP	$102	$34	$170
Level 2 counseling, pre- and post-HAMP[a]	$159	$123	$195
Level 3 counseling, pre-HAMP	$181	$151	$212
Level 3 counseling, post-HAMP	$234	$164	$304

Source: OLS model estimates from NFMC program data for January 2008 to December 2009 and LPS loan performance data through December 2009.

Notes: Models that used non-NFMC loans included all NFMC loans, without regard to whether they were matched in the propensity scoring process. The results using only matched loans were not materially different.

[a] Counseling's effect on a loan modification's payment reduction was the same before or after HAMP began in April 2009. Therefore, we only report one parameter estimate for counseling's effect.

Table 7: OLS Regression Model Estimates for Counseling Effects on Percentage Reduction in Monthly Payment Resulting from Loan Modifications

	Average Additional Reduction in Monthly Payment		
	Parameter estimate	95 percent confidence interval	
NFMC vs. Non-NFMC Model:			
Effect of any counseling[a]	7.8	7.1	8.4
NFMC vs. non-NFMC Model:			
Level 1 counseling pre-HAMP	7.7	6.8	8.6
Level 1 counseling post-HAMP	6.3	4.2	8.3
Level 2 counseling[a]	7.5	6.4	8.6
Level 3 counseling pre-HAMP	8.3	7.4	9.2
Level 3 counseling post-HAMP	10.0	7.8	12.1

Source: OLS model estimates from NFMC program data for Jan 2008 to December 2009 and LPS loan performance data through December 2009.

Note: Models that used non-NFMC loans included all NFMC loans, without regard to whether they were matched in the propensity scoring process. The results using only matched loans were not materially different.

[a] Counseling's effect on a loan modification's payment reduction was the same before or after HAMP began in April 2009. Therefore, we only report one parameter estimate for counseling's effect.

Interaction Models

We also ran models that interacted borrower, loan, metropolitan area/neighborhood characteristics with counseling to determine how certain types of clients benefitted from counseling when measuring the size of loan modifications. The results of these interactions are summarized in table 8.

Table 8: Summary of Interaction Effects of Counseling on Loan Modification Monthly Payment Reduction

Variable	Significant at *p* < .05?	Direction
Black	No	n/a
Asian	Yes	Positive
Other race	No	n/a
Hispanic	No	n/a
Income	Yes	Negative
Original loan amt.	Yes	Positive
Current interest rate	Yes	Positive
Subprime	Yes	Positive
ARM	Yes	Negative
Interest of other type	No	n/a
OptionARM	Yes	Negative
Agency loan	Yes	Positive
Government loan	Yes	Positive
Portfolio loan	Yes	Positive
Jumbo loan	Yes	Negative
Loan to value (LTV)	No	n/a
Loan to value ratio not 80	No	n/a
Tract loan approval rate	No	n/a
Median mortgage amt. in tract	Yes	Negative
Unemployment rate	Yes	Negative
Percent change in house price index	Yes	Negative
FICO/credit score- original	Yes	Positive

Source: OLS model estimates from NFMC program data for Jan 2008 to December 2009 and LPS loan performance data through December 2009.

The interaction results suggest that NFMC counseling's effect on reducing a borrower's monthly payment through a loan modification was greater for lower income clients, for clients with larger mortgages, and for those who had loans with relatively high interest rates. Moreover, borrowers who had higher credit scores at origination and were current before getting their modification had bigger payment reductions. This may indicate that people who have more financial literacy or were less in trouble benefited more from counseling because (1) servicers viewed them as better risks and were more inclined to offer them help; or (2) such clients were more likely to follow through with plans and requirements needed to get a modification. On the other hand, clients with option ARM loans received modifications with smaller payment reductions, as did clients who lived in areas with higher unemployment levels.

Clients whose loans were held in portfolio received larger payment reductions through modifications, which may reflect challenges associated with getting decisions from investors in a securitized loan pool. These challenges did not seem to be present, however, for loans insured by the government-sponsored enterprises. Clients with mortgages held by Fannie Mae and Freddie Mac also had larger payment reductions on their modifications, compared with privately securitized loans.

As noted earlier, research on loan performance has highlighted a positive relationship between better mortgage outcomes (such as foreclosure avoidance and reduced delinquency recidivism) and significant reductions in monthly loan payments. Therefore, if NFMC Grantees were able to help homeowners obtain more beneficial loan modifications from servicers and lenders, one would expect to see improved client outcomes. In the following section we present our analyses of the impact of NFMC counseling on the sustainability of loan modifications.

NFMC Program's Effect on Sustainability of Cures

An important issue that has emerged in the debate regarding interventions to help homeowners avoid foreclosure and remain in their homes is whether such efforts are sustainable over the long term. With regard to the NFMC program specifically, a key question of interest was whether homeowners who receive counseling assistance to bring their mortgages current—through loan modifications, forbearances, or other means—were subsequently able to remain current on their monthly payments. In other words, did troubled homeowners who were helped eventually end up back in serious delinquency or foreclosure (a result often referred to as recidivism)?

We shaped our analysis of this sustainability issue based on a common sense understanding of what parties to the debate focus on in their discussions. We addressed two key questions.

1. Given a homeowner who cures a serious mortgage delinquency or a foreclosure by bringing the mortgage payment status to current, how likely is it that this homeowner then stays out of trouble (i.e., does not redefault on his/her mortgage) and how does counseling affect the likelihood of the homeowner remaining current? This corresponds to an "Is it worth helping people get cures, through counseling and other interventions?" discussion.
2. Going back one step further, what is the likelihood that a homeowner in serious delinquency or foreclosure manages a cure and then is able to sustain it? This corresponds to the issue: "How good are the chances of going from troubled loan to sustainably current loan" and how does counseling affect that answer?

In the first question, we concentrate only on homeowners who have already obtained default-curing modifications or cured their loans in other ways. We examine their experience in using counseling to help to remain current. In the second question, we start with all borrowers in serious trouble, examining first their likelihood of curing defaults and then of avoiding new delinquency and foreclosure on their cured loans.

For both questions, we divided our sustainability analysis into two parts, one for defaults cured by obtaining mortgage modifications[26] and one for other cures. The reason for the distinction is that one would expect the redefault of modified loans to be partly a function of the size of the payment reduction obtained in the modification. We want to construct our models so modification size is one factor we consider as a determinant of recidivism. For non-modification cures, size of modification is obviously not relevant.

Our analysis, detailed below, provides positive answers about the impact of counseling for both sustainability questions:

- *counseling significantly decreases the percentage of redefaults among loans once cured, and*
- *counseling significantly increases the share of seriously delinquent or foreclosed loans that are ultimately rescued and remain current.*

On the first question, our findings showed that counseled homeowners who had cured their loans to current from a serious delinquency or foreclosure were far more likely to remain current afterward than were either non-counseled homeowners or counseled homeowners who cured their loans before, and therefore without the benefit of, NFMC counseling. This finding of much lower redefaults, among borrowers who had once cured, applied most strongly to homeowners curing through a loan modification but also to those curing without a modification.

On the second question, we found that, of all homeowners with a mortgage initially in serious delinquency or foreclosure, many more both cured their defaults and kept their loans current if they received counseling, again compared with homeowners who received no counseling or who got counseling only after obtaining a cure. Thus, for a given number of loans in trouble, the number with lasting rescues was much larger with counseling. This difference resulted predominantly from lower redefault rates with counseling for given cures; but it also involved, to a lesser extent, more modestly increased total cures and a shift to more cures through modifications relative to other types of cures.

We used both descriptive tabulations and multivariate analysis to examine the sustainability of cures. The evidence on both questions was consistent between the two sets of

[26] See pages 26–27 for our definition of modifications, generally limited to cases with adjustment of one of the key terms of the loan resulting in reduced payments. Bringing foreclosed and seriously delinquent loans current without these modifications constitutes a non-modification cure.

methods. In the next part of this section, we present a descriptive overview of the sample of loans used in the sustainability analysis and our first recidivism measure: redefault. In the following sections, we discuss the estimates obtained from the multivariate models of the program impacts corresponding to question 1, look at descriptive evidence about question 2, and end with multivariate analysis of question 2.

Descriptive analysis of sustainability of cures

We built our sustainability analysis for both questions 1 and 2 on the experience of borrowers with initially troubled loans, either delinquent at least three months or in foreclosure (but not yet finally foreclosed). We focused on borrowers entering NFMC counseling during 2008 and 2009 and their matched non-NFMC counterparts, but we followed their experience through 2010 so there was opportunity to track their post-cure record of recidivism or sustainability over a significant period.

Table 9 describes the sample of 2008 and 2009 NFMC counseled loans (rounds 1 and 2 of the program) and the corresponding matched sample of non-NFMC loans that experienced either a seriously delinquency or a foreclosure episode in 2008 or 2009. These loans are further broken out by whether they received a loan modification cure or non-modification cure to become current during this same period and, in the case of NFMC loans, whether that cure occurred before or after the start of NFMC counseling.

From our sample of round 1 and 2 loans and their counterparts, about 143,000 NFMC program clients and 69,000 non-NFMC homeowners experienced a serious delinquency or a foreclosure between January 2008 and December 2010. Nearly 50 percent of the NFMC loans in delinquency or foreclosure received a loan cure, either with or without a modification, compared with 38 percent of the non-NFMC loans. Over half the NFMC loan cures (53 percent) involved counseling leading to a modification, while less than a third (30 percent) involved counseling leading to a cure without a modification.[27] The remaining NFMC borrowers received counseling only after cures had occurred. For the non-NFMC borrowers, only 39 percent of cures were modifications, with over 60 percent non-modification cures. Thus, among borrowers with seriously troubled loans, counseled homeowners were more likely to obtain cures, and especially cures through modification, than were people without NFMC assistance. NFMC cure rates were higher after HAMP began and more concentrated in modifications.

Sustainability of cures is illustrated in figure 2, which shows the actual percentages of cured loans avoiding redefault for each month after the cure. Rates are presented separately for modification and non-modification cures aided by counseling and those without counseling. Cumulative redefaults increase, and therefore sustainability rates decrease, as the period since

[27] The 30 percent include, in table 9, both non-mod cures and a third category, loans modified but at a time more than one month from their cure, for which we are uncertain about whether the cure was produced by the modification.

a cure was achieved grows.[28] Nine months after a cure, which is the average length of time that we observed loans,[29] significantly more NFMC-counseled modification cures were sustained than non-counseled modification cures (83 percent compared with 75 percent). Over the same period, NFMC non-modification cures sustained were slightly lower, at 62 percent, than non-counseled non-modification cures (64 percent). For both counseled and non-counseled borrowers, sustainability rates were higher for modifications than for loans cured in other ways. Thus we might expect higher sustaining rates for counseled borrowers overall, based on our descriptive analysis, for two reasons: (1) the wider margin for sustaining counseled modification cures than for sustaining non-NFMC non-modification cures, and (2) counseled borrowers receiving more cures in the form of modifications, which performed better than non-modification cures.

[28] The graph begins at three months because a cured loan cannot be seriously delinquent (90 days) until that time.

[29] After which loans either redefault or reach December 2010.

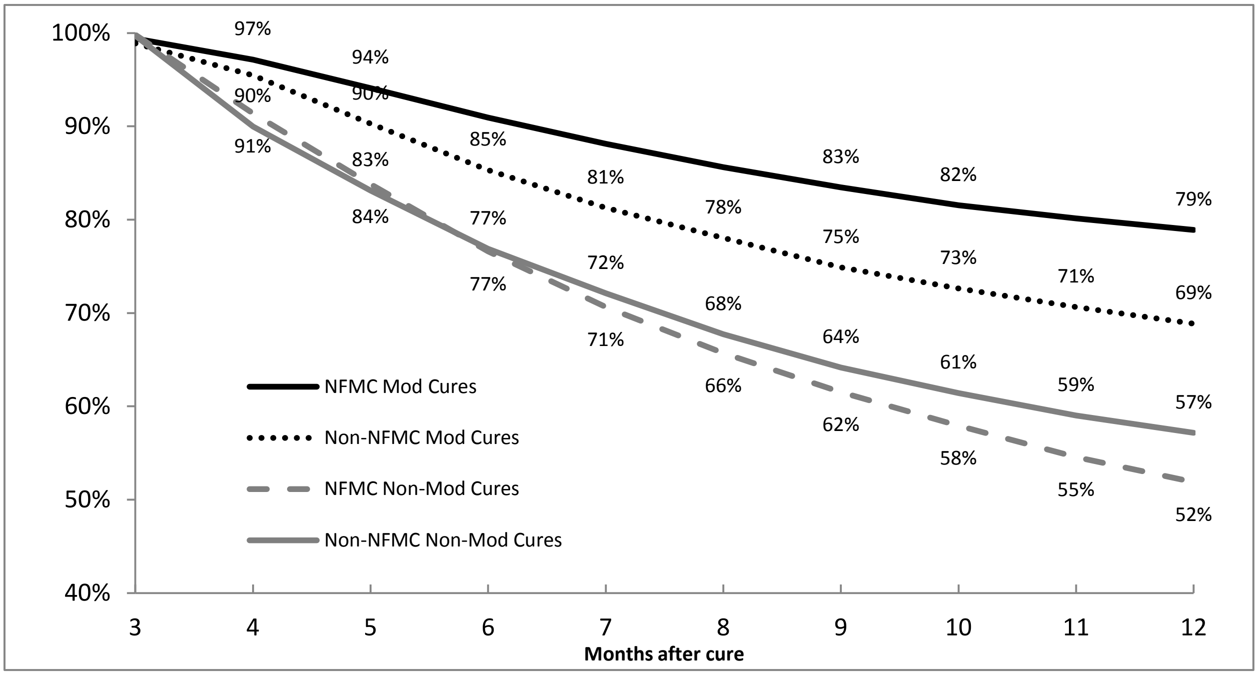
Table 9: Loans That Experienced a Serious Delinquency or Foreclosure in 2008 or 2009 by Counseling and Loan Cure Status, Rounds 1 and 2 NFMC and Non-NFMC Loans

	Total		Pre-HAMP		Post-HAMP	
	Loans	**Percent**	**Loans**	**Percent**	**Loans**	**Percent**
NFMC						
Total Seriously Delinquent or Foreclosed	**142,788**	**100.0**	**90,130**	**100.0**	**52,658**	**100.0**
Total cures	**71,167**	**49.8**	**42,665**	**47.3**	**28,502**	**54.1**
Mod-cures	40,336	56.7	22,841	53.5	17,495	61.4
Pre-counseling	2,777	6.9	1,118	4.9	1,659	9.5
Post-counseling	37,559	93.1	21,723	95.1	15,836	90.5
Mod >1 month away from cure	12,509	17.6	7,986	18.7	4,523	15.9
Pre-counseling	4,502	36.0	2,301	28.8	2,201	48.7
Post-counseling	8,007	64.0	5,685	71.2	2,322	51.3
Non-mod cures	18,322	25.7	11,838	27.7	6,484	22.7
Pre-counseling	5,011	27.3	2,638	22.3	2,373	36.6
Post-counseling	13,311	72.7	9,200	77.7	4,111	63.4
Not cured	**71,621**	**50.2**	**47,465**	**52.7**	**24,156**	**45.9**
Non-NFMC						
Total Seriously Delinquent or Foreclosed	**69,074**	**100.0**	**-**	**-**	**-**	**-**
Total cures	**26,357**	**38.2**	**-**	**-**	**-**	**-**
Mod-cures	10,209	38.7	-	-	-	-
Mod >1 month away from cure	4,731	17.9	-	-	-	-
Non-mod cures	11,417	43.3	-	-	-	-
Not cured	**42,717**	**61.8**	**-**	**-**	**-**	**-**

Source: NFMC program data January 2008 through December 2009 and LPS loan performance data through December 2010.

Note: Serious delinquency is three months or longer.

Figure 2: Cumulative Percentages of Cures Sustained, Modification and Non-Modification Cures



Source: NFMC program data 2008 and 2009; LPS performance data January 2008 through December 2010.

NFMC program's effect on sustaining delinquency and foreclosure cures

Based on our descriptive analysis, homeowners who obtained NFMC counseling help, and then with that aid obtained cures, were more likely to sustain cures of serious delinquencies or foreclosures than other groups of cured borrowers. The descriptive analysis above does not control for the large number of other characteristics—of loans, borrowers, and markets—that can affect foreclosure outcomes, and recidivism in particular, and make the tabulated impacts of counseling seem larger or smaller than they really are. As with other impacts of counseling on modification amounts, we constructed multivariate models to test our results for the impact of counseling on delinquency and foreclosure recidivism, for modification and non-modification cures, while controlling for other important factors.

Our modeling approach to sustainability of cures made through loan modifications differs from that for other, non-modification cures. We expected counseling to affect redefault of those already cured through loan modification in two possible ways, which our modeling allowed us to distinguish. The first was through counseling's impact on the *size of the reduction in monthly payments resulting from loan modification*. Our surveys of counseling providers and housing industry observers, as well as our review of NFMC Grantees' quarterly program reports, indicated that counselors work with borrowers and servicers to try to obtain more significant reductions in payments. Our own results earlier in this report showed large effects of counseling on loan modification size, and recent research (Quercia and Ding 2009) demonstrated a significant effect of the dollar size of loan payment reduction on borrower redefault. We anticipated that counseling could therefore expand payment reductions and thereby lower recidivism.

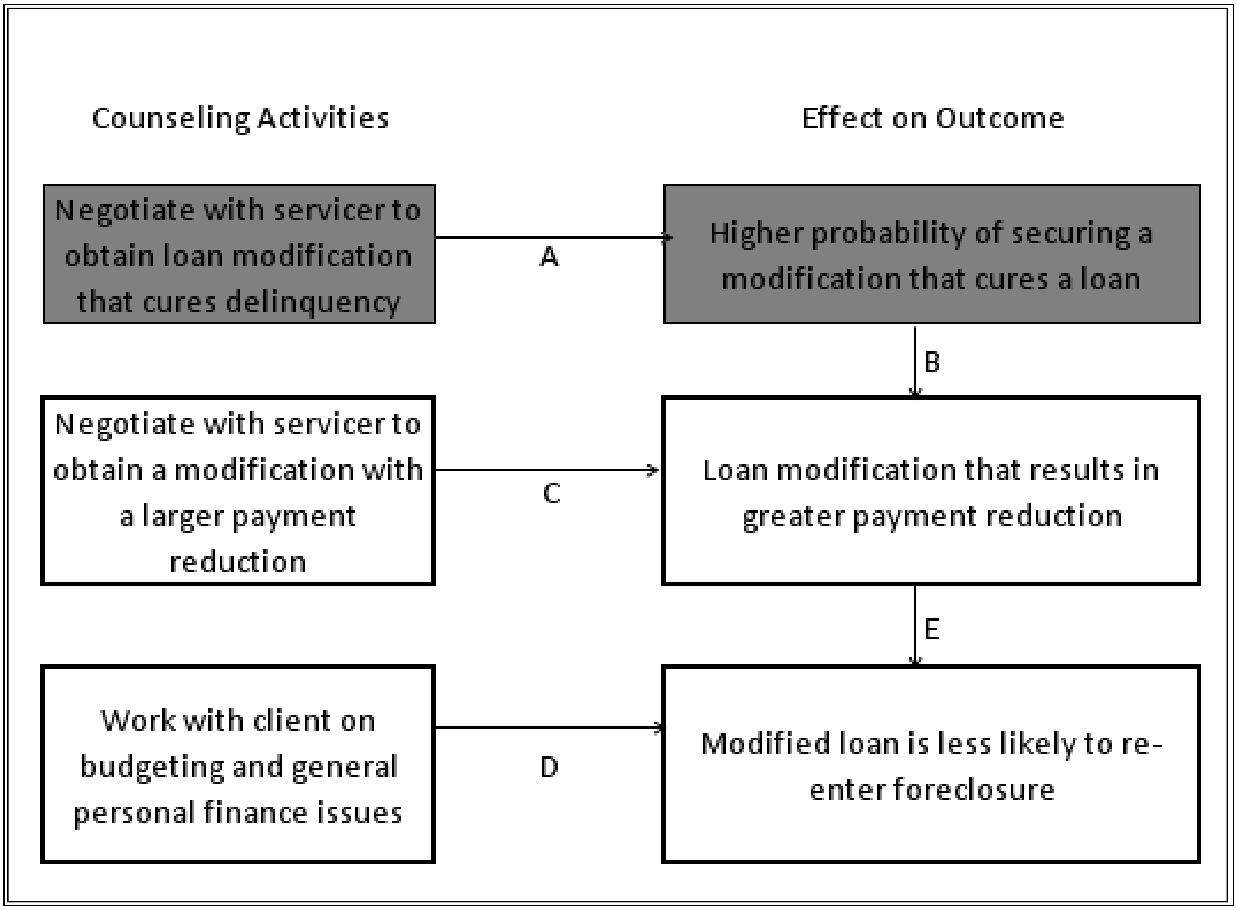
The second impact of counseling on sustaining cured loans, also highlighted by counselors in our earlier surveys and case studies, derives from *counselors' work with borrowers on financial planning and management*, in areas including budgeting for the short and long term, non-mortgage credit management, cost-cutting, and revenue generation.[30] These contribute to borrowers' continued ability to meet newly modified mortgage payments. While the data we have do not permit us to observe the specific types of assistance provided by counselors, as we will show, the construction of our models allowed us to estimate the effect of this second important component of counseling assistance, independent of any effect of the size of the loan modification the homeowner received.

A graphical representation of the structure of counseling's potential impact on sustaining loans cured through modification is presented in the lower four white boxes and arrows C, D, and E of figure 3. The bottom right box represents the desired sustainability result of counseling: reduced recidivism of modified loans. The middle row of boxes represents the possibility of counseling producing larger payment reductions in loan modifications, with resulting effects in reducing recidivism; and the bottom left box reflects the possibility of counseling directly affecting recidivism through financial management assistance and overall support in sticking to modification plans. For this first measure of sustainability, only loans once troubled and then subsequently cured by modifications enter the middle row, then to be sustained or not.

The entire figure 3 diagram encompasses sustainability question 2 as well, addressing counseling's impact first on cure rates and then on sustaining the cures. The shaded top row of boxes representing counseling's effect on modification/cure rates for troubled loans feed into the likelihood of recidivism given that a modification/cure has occurred as shown in the unshaded rows. We will revisit the entire diagram when we discuss our analysis of question 2, the likelihood of curing and sustaining together.

[30] In a small minority of cases, counseling agencies also had access to emergency and/or longer-term financial assistance, which could also help with sustainability.

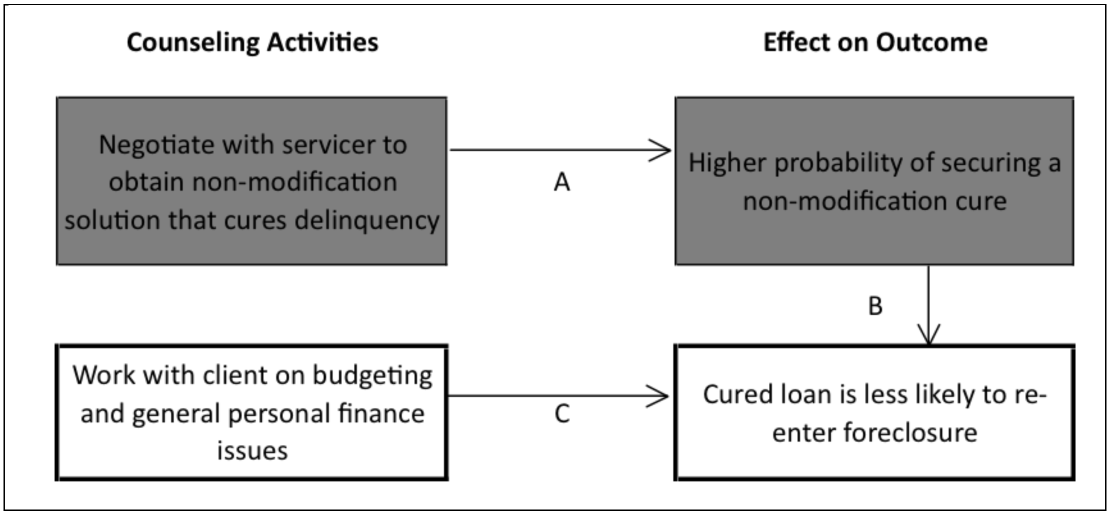
Figure 3: Framework of Counseling's Effects on Loan Curing with Modification and Sustaining Modified Loans



Turning for a moment to loan cures-to-current obtained through means other than modifications, the picture is simpler (figure 4). No modification is involved, so counseling's contribution to the size of payment reduction is not an issue.[31] Counseling contributes to the borrower's financial planning and position to sustain cures (question 1). The full picture outlines counseling potentially affecting non-modification cures and later redefaults of them (question 2).

[31] Counseling could affect the structure and scale of forbearances or repayment plans, with implications for the sustainability of cures, but we do not have the data to explicitly model these factors as we do for modifications.

Figure 4: Framework of Counseling's Effects on Loan Curing without Modification and Sustaining Outcomes



Counseling impacts on sustaining loan modifications

Returning to sustainability question 1, and to sustaining modification cures (versus non-modification cures) in particular, we developed models to examine the effects of counseling on recidivism of modification in two steps. As indicated in the conceptual framework (figure 3), counseling's impact on redefault is influenced by (C) its effect on the size of NFMC clients' *loan modification* and in turn those modifications' effects on the likelihood of redefaults, and (D) the effects of counseling on *financial management* and related borrower action that influence redefault without regard to the reduction in a client's loan payment.

Our key findings were that counseling had a statistically significant impact in reducing recidivism of modification-cured loan loans through *both* increasing payment reductions and providing financial management and other guidance. The combined effect of the two factors reduced the relative odds of redefault by a remarkable three-quarters for borrowers who receive pre-modification counseling. But the impact of aid with financial management and other matters (irrespective of loan modification size) was much larger than the payment reduction effect.

To obtain these estimates for sustainability question 1, we combined two multivariate models, which are summarized mathematically in the first two equations in box 1 on page 65 and described in the next three subsections.

The loan modification size component of counseling impact on redefault

To determine how counseling affects sustainability through lower monthly payments as a result of a loan modification, we used a two-stage modeling approach. First, we reestimated the effect of counseling on reduction in loan payment, but this time just for those NFMC and non-

NFMC borrowers *receiving modifications that brought them current* (as represented in equation 1 in box 1). Besides a dummy variable representing counseling before a modification, the model also included the standard loan, borrower, and market characteristics used as controls in our other models. It also added a dummy variable for whether the modification occurred before or after HAMP, and an interaction between the counseling and HAMP dummies—representing the possibility of differing counseling impacts in the two periods (just as in the all-modifications payment reduction mode).[32] We then estimated a second model (equation 2) that predicted the probability of borrower redefault as a function of the level of monthly payment reduction (along with other factors). By combining the results of the two models, we were able to estimate the effect of counseling on the relative odds of redefault based on the additional reduction in the monthly payment amount that could be attributed to counseling assistance.

As in our descriptive tabulations, the data used in the sustainability models included round 1 and 2 counseled and non-counseled homeowners, tracked through the end of 2010. Throughout the sustainability modeling analysis, however, we focused exclusively on *loan modifications that resulted in cures of serious delinquencies or foreclosures*. That is, the loan modification must bring a previously defaulting mortgage to current status, with no delinquencies and no pending foreclosure.[33] This differs from our earlier multivariate analysis of loan modification impacts (discussed under "NFMC Program's Effect on Loan Modifications," page 47), which looked at all loan modifications, regardless of whether they brought the loan current. The loan modifications examined here represented a specific subset of all modifications.[34]

Consider first the model for payment reduction size in curing modifications (table 10).[35] We used an OLS regression to estimate the effects of counseling on payment reductions. Consistent with our modification-size models earlier in the report, the effects of counseling before receiving a loan modification, compared with counseling after modification or with

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[32] This variable differs from the HAMP-related dummy in the foreclosure cures model discussed earlier, in that it focuses on the timing of modifications (cures) rather than entrance to counseling. Our hypothesis was that payment reduction size would be affected by whether HAMP had begun when the loan was modified, rather than whether HAMP had begun when counseling began.

[33] In operational terms, to be included in this analysis the loan modification had to occur within one month of the loan becoming current on all monthly payments.

[34] It turns out that this difference in modifications considered had very little ($2) impact on the size of payment reductions.

[35] As we had done previously, we initially estimated two versions of the payment reduction model: one estimating counseling's impact on monthly payment reduction in absolute size (dollars) and one as a percentage of the pre-modification monthly payment. But because the percentage change model produced much the same results as the dollar version, we conducted the bulk of our analysis and reported the results of only the dollar payment reduction version, in order to reduce the number of analysis option branches in these models. In the one area where differences exist, they are specified in the report.

receiving no counseling at all, were substantial and statistically significant. The difference in size of the payment reduction for a counselor-assisted loan modification was $178 a month (see table 10; full model results are in appendix M).

Again as we earlier found for all modifications, the dollar amount of the difference between curing modifications to counseled versus non-counseled borrowers did not vary between the pre-HAMP period and the period after HAMP started.[36] For a typical loan, the $178 difference translated into a $565 reduction in monthly payment for post-counseling modifications received before HAMP, compared with a $387 payment reduction for other borrowers—an increase of over 45 percent for counseled borrowers.[37] For modifications made after HAMP, the payment reduction for counseled borrowers was $730 a month compared with $552 for non-counseled borrowers, an increase of 32 percent. Because the post-HAMP period saw larger payment reductions in general, the impact of the same $178 counseling difference after March 2009 made a smaller percentage impact.

Turning to levels of counseling, interestingly for modifications before HAMP began, Level 1 counseling made about the same difference in payment reductions as Level 3 and more than Level 2. Once HAMP began, the higher counseling levels were much more beneficial and the effect of Level 1 counseling by itself declined.

[36] The term in the model for interaction between pre-mod counseling and whether the modification preceded or followed the introduction of HAMP was not statistically significant. In earlier analysis, we also estimated separate models for only non-NFMC loans along with the NFMC/non-NFMC models, finding no substantial difference in results.

[37] The payment reduction for a “typical loan” was estimated using the mean and mode values for the independent variables in our regression model.

Table 10: OLS Regression Model Estimates for Counseling Effects on Reduction in Monthly Payment in Dollars Resulting from Loan Modifications That Cured a Serious Delinquency or Foreclosure

	Parameter estimate	95 percent confidence interval	
Simple counseling effect[a]	178	157	200
Counseling level effects			
Level 1 counseling			
Pre-HAMP	192	162	222
Post-HAMP	103	77	129
Level 2 counseling[a]	163	126	199
Level 3 counseling			
Pre-HAMP	183	152	214
Post-HAMP	234	207	261

Source: OLS model estimates from NFMC program data January 2008 through December 2009 and LPS loan performance data through December 2009.
Notes: Serious delinquency is three or more months.
a. Counseling's effect on a loan modification's payment reduction was the same before and after HAMP began in April 2009. Therefore, we only report one parameter estimate for counseling's effect.

We need now to connect this significant impact of counseling on modification size to the effect of loan modification payment reduction on redefaults and to combine it with the other effects of counseling.

Box 1. Models Used to Estimate Counseling's Effects on Sustainability

Equation 1: Effect of counseling on monthly payment reduction

$$M = a*L + b*E + c*H + d*E*H$$

where *M* is size of a modification's payment reduction; *L* is the many borrower, loan, and market control characteristics; *E* is a dummy variable taking the value 1 for borrowers who obtained a modification with counseling assistance and 0 for borrowers who obtained a modification without counseling assistance (people who either did not receive counseling or went to counseling after getting their modification); *H* is a dummy variable with value 1 if the modification took place after March 2009; and *E*H* is an interaction variable between counseling and the HAMP start–related date for the modification, representing possible differences in counseling's impact once HAMP starts.

Equation 2: Independent effects of size of payment reduction and non-modification counseling assistance on redefault

$$Probability(Y=1 \mid \text{loan modified and cured}) = g(M, L, T(t), E(t), C(t), E(t)*C(t), R(t), P(t))$$

where the left side of the equation is the conditional probability that a loan, once cured through a loan modification, falls again into default. It is determined by *M*, the size of the loan modification payment reduction; *L*, the loan, borrower, and neighborhood and regional characteristics for which we want to control; *T*, the time since the loan was cured; *E,* a dummy variable valued at 1 for a borrower once (s)he entered counseling if it is before the modification occurred; *C,* a dummy valued at 1 if the modification took place after March 2009; *R,* a dummy variable valued at 1 in periods before an eventually counseled borrower enters counseling; and *P,* a dummy variable valued at 1 if the homeowner entered counseling after the modification. We expected *M* to have a negative effect on the probability of recidivism (bigger modification, smaller likelihood of renewed trouble). As shown in equation 1, *M* is itself determined in part by pre-modification counseling, if it takes place. The parameter *E* represents the effects of counseling assistance independent of the effects of monthly payment reduction from a loan modification (along with the interaction variable *E*C*) and should also have a negative effect on redefault rate.

Equation 3: Effect of counseling on curing a serious delinquency or foreclosure

$$Probability(U=1 \mid \text{foreclosed or delinquent, modified}) = h(L, S(t), F(t), D(t), F(t)*D(t), R(t))$$

where the left side of the equation is the conditional probability of a loan cure from being seriously delinquent or in foreclosure using a modification; *S(t)* is the time elapsed since entry into foreclosure or serious delinquency; *F(t)* represents two dummy variables for entering counseling before cure, one before and one after April, 2009; *D(t)* is a dummy variable for pre- and post-April 2009; *F(t)*D(t)* is the interaction between counseling start and the start of HAMP; *R* is a dummy variable valued at 1 before an eventually counseled borrower enters into counseling; and the other variables are as above.

Modeling redefaults of modifications, including payment size and non-payment-size components of counseling impact

In the next stage of analysis, we model the probability of redefault of a loan previously cured through modification, as represented in equation 2 on page 65. We estimated the equation as a LOGIT model of the monthly redefault rate (rate of previously modified-and-cured loans becoming seriously delinquent or entering foreclosure in each month), using a method in which we estimate monthly probabilities and apply these estimates to a cohort of loans. The key representation of counseling is a variable representing entry to counseling before modification. A difference was that, because redefaults are measured forward from modifications already made, this variable took a value of 1 in every period if pre-modification counseling occurred. The variable looks backward to a time before this model's observations.[38] These estimates take into account that the amount of monthly payment reduction received from a loan modification was included as an independent variable. This allowed us to measure directly the impact of the size of the payment reduction on the probability of redefault. Consistent with the research literature, one would expect to see a negative effect of payment reduction, with larger modifications producing lower likelihood of redefault.

If we in fact find that size of payment reduction affects redefaults, we can trace the impact of counseling on redefaults by way of its effect on modification size, using the results of the modification-size model (equation 1) and the redefault model (equation 2). As we shall illustrate below, we estimated the change in payment reduction as a result of entering counseling before a modification from the first model. We then plugged that payment change amount into the redefault model to find the effect of counseling on redefault through payment reduction.

The other key component of our redefault model was consideration of the additional ways counseling affected redefault (as conceptualized in figure 3). In addition to the impact of counseling on the size of payment reductions from modifications, our informed observers, surveys of counselors, and case studies suggested that counseling may help borrowers manage their finances (with a given size loan modification) or address other issues that may be affecting their ability to make their mortgage payments. Counseling may help borrowers choose expenses to cut back during a time of mortgage crisis and increase commitment to reducing them; find additional sources of financial assistance, such as for paying utility bills; or generate additional income, for example by renting out a room. Counseling may also be important for supporting and encouraging borrowers to keep focused on meeting revised mortgage obligations or dealing with servicers, in the face of high stress.

We modeled the possible impacts of additional types of counseling assistance by adding a dummy variable representing pre-modification entry to counseling to our redefault LOGIT

[38] In a later section, we discuss the impact of counseling entered after a modification has already occurred.

model (equation 2), while keeping the payment reduction through loan modification variable in place. Variable *E* in equation 2 in the box on page 65 represents counseling begun before a loan modification and estimates the potential independent effect of non-loan-modification-related assistance.[39] Because the payment reduction's impact—and counseling's impact on it—are already accounted for by the payment-reduction variable, the counseling variable in this second model represents the other effects of counseling outside its role in determining the size of loan modifications. We can hypothesize in advance that the additional direct impact of pre-modification counseling on redefault will be negative—that is, the assistance counselors provide on financial management, budgeting, and so on, would make it less likely that a homeowner will redefault. The model also allows the impact to vary based on whether the modification preceded or followed the start of HAMP, using variables controlling for the interaction between counseling and modification timing.[40]

As a further model control variable, we added the time since the loan modification occurred, since one would expect to observe a lower likelihood of redefault once a borrower has successfully made several payments. Further, to control for any unobserved differences between people choosing to enter counseling and those not, we employed a dummy variable (*preEC*) for people who eventually entered counseling in the periods before they entered,[41] as explained in the section on selection bias on page 37. Finally, we used a dummy variable representing the pre- and post-HAMP initiation period interacting with a modification taking place after counseling.

Once again, the data used in this redefault model included Round 1 and 2 counseled and corresponding non-counseled homeowners. Their performance was tracked through the end of 2010 to provide significant time for curing and redefault, for loans in seriously delinquency or foreclosure that had previously been brought current by modification. The key results of this second model are summarized in table 11 (complete models are in appendix N). The impact of the size of the monthly payment reduction (*M*) was significant and negative, indicating that larger monthly payment reductions resulted in lower probabilities of subsequent redefault. In addition, the separate effect of counseling on recidivism (*E*) was large, negative, and statistically significant. Indeed, the effect of non-modification counseling impacts was far

[39] For borrowers obtaining counseling before their loan modifications.

[40] Mechanically, the impact of counseling is the sum of the impact of *E* and the interaction term for post-HAMP modifications. Note that the HAMP-timing variable (*C*) in the re-default model differs from the HAMP-related variable in foreclosure cures models because the former represents whether cures preceded HAMP, rather than the calendar period during which counseling may (or may not) be occurring and loans are being observed. We believe it is the timing and thus quality of the cure relative to HAMP's initiation that should be expected to affect later possibility of re-default.

[41] This *preEC* variable necessarily indicates people who will enter counseling after their cure occurs, since the model only observes borrowers who have already cured their loans.

larger than the effect of counseling through loan modification size, indicating that these counseling effects made a greater impact on reducing the likelihood of redefault than did the simple reduction in monthly loan payment.

More specifically, the model results indicated that a $*1,000* reduction in payments through modification reduced the relative odds of redefault by 20 percent.[42] From our modification-size model, we know that counseling produces *$178* in additional payment reductions, which is about 18 percent of $1,000. *Therefore, counseling created about a 3.5 percent[43] reduction in the relative odds of modification cure redefaults through its effect on size of payment reductions* (represented by arrows C and E and the boxes they connect in figure 3). The impact was the same both before and after HAMP.

[42] The percentage reduction in the odds ratio is 1 minus the odds ratio. One minus odds ratio 0.80 = 0.20.

[43] 20 percent times 0.18.

Table 11: LOGIT Model Odds Ratio Estimates for Counseling Effects through Loan Modification Size and Directly on Likelihood of Redefault

	Net odds ratio	95 percent confidence interval	
Effect of payment reduction (per $1,000)[a]	0.80	0.78	0.82
Direct effect of any pre-modification counseling outside payment reductions			
Pre-HAMP[b]	0.23	0.20	0.26
Post-HAMP[c]	0.27	0.24	0.30
Direct effect of levels of pre-modification counseling outside payment reductions			
Level 1			
Pre-HAMP[b]	0.22	0.19	0.25
Post-HAMP[c]	0.25	0.22	0.28
Level 2			
Pre-HAMP[b]	0.22	0.19	0.25
Post-HAMP[c]	0.28	0.24	0.32
Level 3			
Pre-HAMP[b]	0.22	0.19	0.25
Post-HAMP[c]	0.27	0.23	0.31

Source: LOGIT model estimates from NFMC program data January–December 2009 and LPS loan performance data through December 2010.

[a] Counseling's effect on a loan modification's payment reduction was the same before and after HAMP began. Therefore, we only report one parameter estimate for counseling's effect.

[b] The pre-HAMP net odds ratio reflects netting out the effect of unobservable differences between NFMC and non-NFMC borrowers.

[c] The post-HAMP net odds ratio reflects netting out those unobservable differences and including the interaction between counseling and the HAMP environment.

The model estimates further indicated a much larger reduction in redefaults of modifications from the financial management and other impacts of counseling (the bottom two boxes and arrow D of figure 3).[44] Before HAMP, *the relative odds of redefault declined by 77 percent as a result of counseling's effects beyond payment size. With HAMP in place, the relative odds of redefault dropped as a result of counseling by a slightly smaller 73 percent (table 11).* These results established a very substantial and direct impact of pre-modification

[44] The percentage reduction in relative odds is 1 minus the odds ratio, or 1.0 - 0.23 = 0.77 for the pre-HAMP model and 1.0 - 0.27 = 0.73 for the post-HAMP model.

counseling on reducing rates of recidivism, including effects independent of counselors' efforts to obtain better loan modifications for clients.[45]

The combined impact of counseling from these two sources—impact on modification size and impact outside modification size—is multiplicative.[46] The effect of modification size was so small, however, for the $178 difference counseling makes, that this multiplication (after rounding to two digits) leaves the combined downward effect of counseling on the relative odds of redefault little changed at 78 and 74 percent, respectively, for the pre-HAMP and post-HAMP periods.[47] Alternative modeling using a percentage rather than absolute measure for the size of payment reductions produced a somewhat larger effect for counseling through modification size relative to counseling's other effects, but the non-payment-reduction component of counseling's impact still dominated, and the combined effect was changed only minimally.

The effects of the three different levels of counseling provided within NFMC were not substantially different from the overall effect. The impacts on relative odds of redefault were identical for the three levels before HAMP. The small difference between levels 1 and 2 once HAMP began was not statistically significant (see table 11).

Putting our key results more positively, for people receiving modifications before HAMP, the relative odds of sustaining a cure are increased by about 355 percent for borrowers who enter counseling before obtaining a modification, compared with those who do not.[48] For modifications after HAMP had begun, the relative odds are increased by about 285 percent.

Because odds ratios can be somewhat difficult to interpret, we also estimated the cumulative probability of a modification redefaulting, with and without counseling, for a typical loan in our sample, based on the means and modes of the explanatory variables. Means were

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[45] One further complication in obtaining these estimates might cause them to be adjusted somewhat downward. The effect of characteristics of people selecting to enter counseling before modifications is, in our redefault models, necessarily based on the experience of that effect for people who enter counseling after modification, who may have done so because of a second round of negative events (job loss etc.). That may overstate the apparent negative effects of self-selection into pre-modification counseling and of unobserved variables and thus overstate the positive program effects of counseling. If, for example, the self-selection before modification and unobservables had neutral effects, impacts of counseling on odds ratios for redefault would still be 60 percent pre-HAMP and 53 percent post-HAMP.

[46] The specific structure of LOGIT models, in which log of the odds ratio of the dependent event variable is a linear function of the independent variables, assures that the odds ratio for impact of two separate independent variables is the product of the individual odds ratios.

[47] These are obtained by multiplying the odds ratio for non-modification impact by the odds ratio for modification impact—the latter already multiplied by the size of the modification reduction under counseling—and then subtracting from 1. For pre-HAMP model: 1 - 0.96*0.23 =0.78. For post-HAMP model: 1 - 0.96*0.27 = 0.74.

[48] A pre-HAMP 78 percent reduction in relative odds of recidivism with counseling, to 22 percent of the odds without counseling, is algebraically equivalent to an increase in sustainability (the opposite of recidivism) by a factor of (1/0.22) = 4.55, or 355 percent over the original odds ratio. The post-HAMP figure is (1/0.26) = 3.85.

used for continuous variables (such as income), modes (or most frequent values) were used for discrete or dummy variables (such as whether the loan was subprime). We estimated the cumulative rates of redefault for counseled homeowners and people with those same characteristics, observable and nonobservable, had they not received counseling.[49] This cohort simulation is explained more fully earlier in the report, in the Methodology section.

Figure 5 illustrates the difference between the rate of curing loan modifications being sustained by borrowers receiving pre-modification counseling and the rate for modifications sustained by borrowers receiving no (or post-modification) counseling. It tracks the cumulative percentage of homeowners who have sustained their loans by the same given period after they received their modifications.[50] The levels of sustained modifications were provided separately for loans modified before and after HAMP began.

For pre-HAMP modifications, nine months after homeowners received their curing modifications 78 percent of those with counseling had avoided redefault (a recidivism rate of 22 percent), compared with only 34 percent of those who obtained curing modifications on their own (recidivism rate of 66 percent).[51] Non-counseled borrowers with modified loans redefaulted at a rate of 8 to 9 percent a month, compared with less than half that—3 to 4 percent—for counseled borrowers. The 44 cumulative percentage point difference in sustainability rates by the ninth month means that counseling lowered recidivism rates in these modifications by two thirds (from 66 to 22 percent) over nine months.

For modifications obtained after the start of HAMP, the effect of counseling on redefault was very similar to that before HAMP. Borrowers who received counseling had an 89 percent probability of sustaining their modified loans over nine months, compared with a 63 percent probability for those without counseling. Only about 1 percent of the homeowners with counseling and these later modifications redefaulted each month, compared with 4 to 5 percent for those without counseling assistance. The 26 cumulative percentage point difference in sustainability rates by the ninth month means that counseling lowered recidivism rates in these modifications by 70 percent (from 37 percent to 11 percent), compared to the 67 percent lower recidivism rate for pre-HAMP counseled modifications noted above.

The advent of the HAMP environment, by itself, also significantly influenced redefaults. For homeowners without counseling, recidivism rates were 89 percent lower among those who obtained their modifications after the start of HAMP instead of before. For homeowners with counseling, those obtaining post-HAMP modifications had recidivism rates 14 percent lower than those who got modifications before HAMP began.

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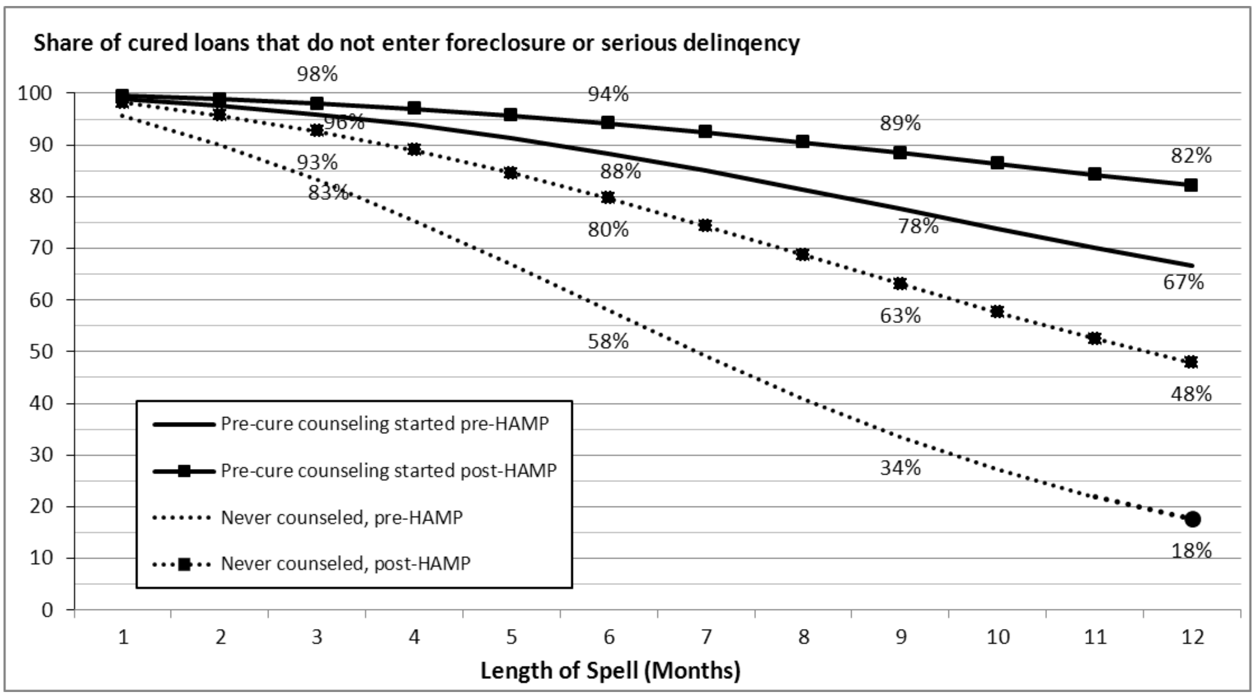
[49] This is different from the rate for non-counseled people, who may be different from those who sought counseling in ways we cannot fully specify.

[50] See appendix R for a summary of the calculations used to produce the figure.

[51] Recidivism rate is simply 1 minus the rate of modifications sustained, as shown in figure 6.

Notably, the combination of NFMC counseling and the implementation of HAMP was able to lower recidivism rates for borrowers curing loans through modifications by 83 percent (from 66 to 11 percent) cumulatively over the course of nine months for a typical counseled loan. That meant changing redefaults from a huge factor undercutting the value of modifications to a far more limited issue. Without question, the impact of counseling in reducing recidivism by recipients of curing modifications was very powerful, both on its own and in concert with the creation of HAMP. This is a result of counseling's separate effects on loan modification size—a smaller effect—and on some mix of aid to borrowers in budgeting, other financial management, and, in a few cases, financial assistance—a much larger effect—and their combination.

Figure 5: Estimated Cumulative Rates for Avoiding Redefault of Curing Loan Modifications for Counseled and Non-Counseled Homeowners



Source: LOGIT model estimates from NFMC program data for January 2008–December 2009 and LPS loan performance data through December 2010.
Note: The calculations for this figure are explained in appendix R.

Modifications with principal reduction

We explicitly modeled the inclusion of a reduction in loan principal as part of the loan modification, as a dummy variable in our model, because some observers have suggested principal reduction would help prevent redefaults. Our findings, already controlling for many other variables including the size of payment reduction provided by a loan modification, indicate that principal reduction was associated with a significant decrease in the rate of redefault, consistent with the effects observed by Quercia and Ding (2009). The relative odds of redefault were reduced by an additional 20 percent when principal reduction was provided, for a given size of monthly payment reduction. Principal reduction offers its own separate impetus to sustaining a loan modification.

Interaction models

We examined potentially differing impacts of counseling on redefaults of modified loans depending on borrower, loan, and metropolitan area/neighborhood characteristics using interactions between those characteristics and the prime counseling indicator variable in the redefault model, entry to counseling before receipt of a modification, as explained on page 38.

The largest interaction effect on counseling's impact on modification-cure redefaults involved not those three sets of characteristics but our indicator of whether the modification itself took place after HAMP started (table 12). Its interaction with pre-modification counseling, viewed by itself, raised monthly redefault rates. What this means is that the effect of pre-modification counseling and the HAMP environment together was somewhat less than the sum of the two interventions' separate individual effects would be. However, even with that interaction, the probability of redefault with these two interventions was far lower than that with just one or neither present.

Turning to the other control characteristics, every borrower population group, and households with every type of mortgage loan and in every set of market circumstances received substantial benefits from counseling resulting in decreasing loan modification redefaults. This conclusion held both before and after the start of HAMP. There were nonetheless some smaller variations in the size of counseling's effect on redefaults following curing modifications, as follows.

- African American borrowers received modestly less benefit from counseling in terms of lower modification redefaults than did non-Hispanic whites. But African Americans started out with fewer redefaults, other things equal, in the non-counseled case. They benefited significantly from counseling in reducing modification-cure redefaults and were much better off in terms of redefaults than without it. But, if they cured their loans after HAMP had begun, they received get modestly less of a redefault reduction than did white non-Hispanics.
- Hispanics had a slightly larger benefit from counseling in reducing redefaults than did non-Hispanics.
- ARMs and option ARMs borrowers received modestly less benefit from pre-modification counseling than did fixed-rate borrowers.
- Subprime borrowers received slightly less benefit. This is, as we shall see, the opposite of the effect of counseling for cures, in which counseling was of more help to the borrowers with initially riskier loans.

The complete set of effects of other characteristics on counseling impacts on loan-modification cure redefaults, before and after HAMP began, is summarized in table 12.

Table 12: Summary of Interaction Effects of Counseling on Probability of Redefault After Loan Modification Cure

Variable	Significant at $p < .05$?	Direction
Black	Yes	Positive
Asian	No	n/a
Ethnicity	Yes	Negative
Income	No	n/a
Original loan amount	Yes	Negative
Current interest rate	Yes	Positive
Subprime (mortgage grade B,C)	Yes	Positive
ARM	Yes	Positive
Interest of other type	No	n/a
Option ARM	Yes	Positive
Agency loan	No	n/a
Government loan	No	n/a
Portfolio loan	No	n/a
Jumbo loan	No	n/a
Modification cure occurs post-HAMP	Yes	Positive
Tract loan approval rate	Yes	Negative
Tract median mortgage amt.	No	n/a
Change in unemployment rate	Yes	Negative
Percent change in house price index	Yes	Negative
Loan to value ratio	Yes	Positive
Loan to value ratio not 80	No	n/a

Source: LOGIT model estimates from NFMC program data for January 2008–December 2009 and LPS loan performance data through December 2010.
Note: We used a method outlined by Norton et al. (2004) to measure interaction effects and their statistical significance.

The effect of post-loan-modification counseling on redefault

We considered a final component of this analysis of sustainability question 1: the effect on redefault of counseling that begins only *after* the homeowner has obtained a curing mortgage modification. Counseling started after a modification could still reduce recidivism as a result of its usefulness from a financial management side, helping a borrower budget, deal with non-mortgage debt, or obtain a second modification or other workout. Adding another dummy variable to the LOGIT analysis, this time for entry to counseling after modification,[52] allowed us to examine that possibility.

One might expect the apparent effect of counseling received after a loan modification to be negative in our LOGIT model of redefaults, with counseling decreasing the rate of recidivism. On the other hand, borrowers who chose to obtain counseling even after receiving a modification that brought them current might be relatively rare and concentrated among people who suffer a second misfortune (job loss, health problem) that would make them more likely to redefault. Indeed, our tabulations indicated that only about 7 percent of the once-cured potential recidivists who entered counseling did so after modifications. The bulk of post-modification entrants to counseling were already seriously delinquent, or about to become so, when they sought counseling. Our dummy variable for post-modification entrants to counseling before their actual entry represented possible additional adverse events although we cannot individually measure them. Netting out that variable's effect from that of the post-modification counseling entrance variable should indicate whether later counseling can offset the likely problems leading to late-entry counseling for those who obtained it.

The result of our modeling analysis was that post-modification counseling was *unable* to offset the extra challenges that people who sought it likely faced. The net odds ratio for redefault was the same for people who entered post-modification counseling both before and after they sought NFMC assistance and was identical to the odds for those with similar characteristics who never received counseling at all. In other words, NFMC counseling entered belatedly, most likely when a second round of trouble arose, was generally unable to fend off redefault.

Our findings that pre-modification counseled borrowers fared substantially better than latecomers is consistent with other evidence that homeowners are better served by starting counseling earlier. This has important implications for policy, as well as future research. Experiments and studies that concentrate solely on post-modification counseling may observe only counseling's limitations in offsetting renewed difficulties. They could miss the strong effects that pre-modification counseling has.

Modeling redefaults of non-modification cures

Redefaults of delinquency and foreclosure cures that took place without loan modifications were more straightforward to model, because there was no payment reduction

[52] We already have dummy variables representing entry into counseling before a modification and periods before entry into counseling but after a modification. The "counseling begun after modification" dummy is a time-varying covariate that becomes 1 when the borrower enters counseling after a modification and remains so thereafter; the prior-to-entry dummy becomes 0 at that same time. The excluded category is that of no counseling, with all three dummies set to 0.

effect to consider. Non-modification cures may include “self-cures,” where borrowers are able to pay their arrearages without any intervention on the part of the mortgage servicer, or they may involve forbearance plans that do not change the interest rate, principal balance, or other loan terms.[53] We followed the core of our modification-cure redefault modeling approach (see equation 2, box 1), except that the outcome to be explained was non-modification cures in redefault. The data were for all loans that had non-modification cures, and the modification payment reduction size variable and the payment size counseling effect equation behind it were eliminated. The primary NFMC counseling variable became counseling before non-modification cures. As with modification redefaults, we hypothesized that HAMP’s principal effect on counseling’s impact on redefault would be through HAMP’s effect on quality of cures, so the interaction-with-counseling variable we included was whether the cure preceded the start of the HAMP program.

Key results are summarized in table 13. (The complete modeling results are in appendix O.) The relative odds of a redefault for non-modification cures for homeowners with counseling before their cure were only 34 percent of those without counseling before HAMP’s start. In other words, before HAMP, counseling reduced the odds of redefault after a non-modification cure by 66 percent. After the start of HAMP, the relative odds of redefault for counseled borrowers were only 61 percent of those for non-counseled borrowers, or a 39 percent reduction.[54] Counseling impacts did not differ significantly for different levels of counseling before HAMP, though the point estimates showed slightly higher impacts for levels 2 and 3. After HAMP, however, counseling levels 2 and 3 produced significantly higher levels of impact than did level 1.

The impacts of NFMC counseling on lowering non-modification cure redefaults were smaller than the corresponding counseling impacts for cures *with* modifications, shown in table 12. Counseling impacts were especially smaller for non-modification cures after HAMP’s initiation. But the impacts of counseling in reducing redefaults were nonetheless very substantial for both modification and non-modification cures.

The impact of counseling on non-modification cure redefaults underlines the importance of counseling apart from helping homeowners obtain a larger payment reduction in their modification. Obviously in the non-modification case, there was no impact of modification size, but the impact of counseling on sustaining cures remained strong.

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[53] Non-modification cures may also include borrowers who received loan modifications at some point but where the modification occurred more than one month before or after mortgage was brought current.

[54] As with modification-cure redefaults, we note the issue of how well post-modification entrants to counseling represent pre-modification entrants, with the possibility that differences could result in overstating counseling’s impact on non-modification cure redefaults. If, for example, we again used the strong assumption that the self-selection before modification and unobservables had neutral effects, impacts of counseling on odds ratios for redefault would still be 45 percent before HAMP but 2 percent after HAMP.

Table 13: LOGIT Model Odds Ratio Estimates for Counseling Effects on Likelihood of Redefault of Non-Modification Cures, Rounds 1 and 2, NFMC and Non-NFMC Loans

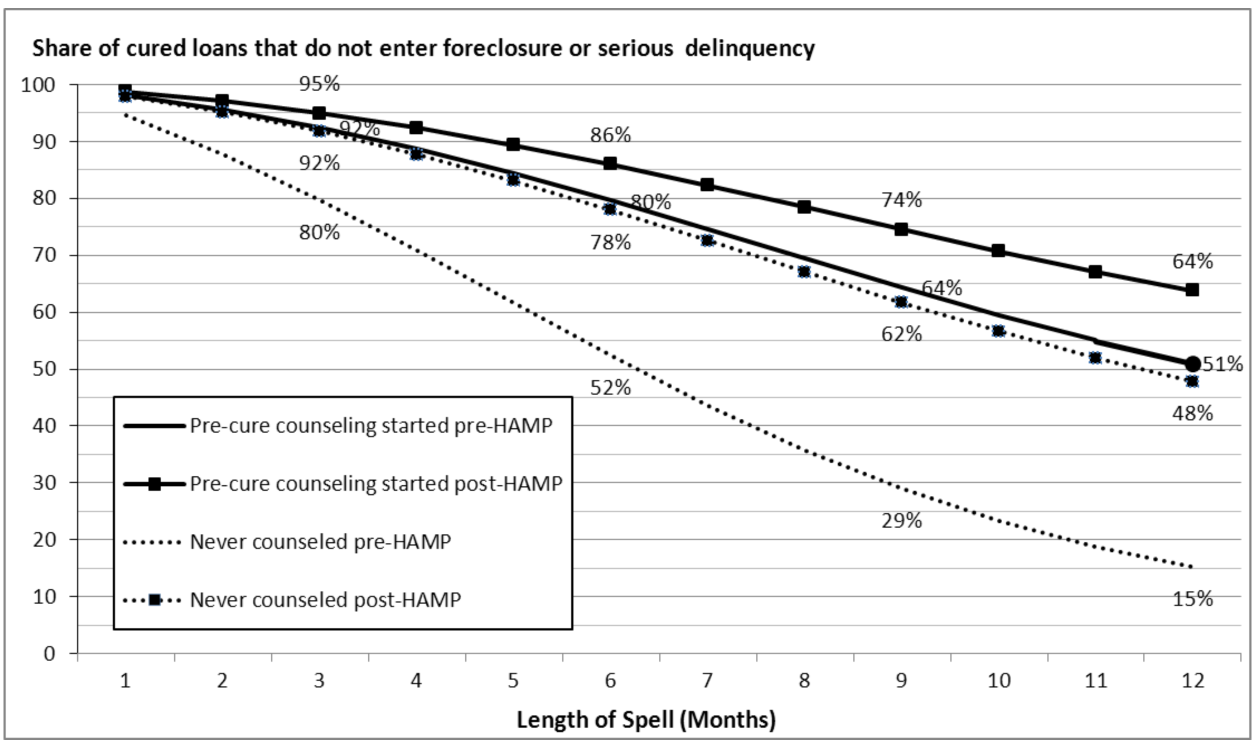
	Net odds ratio	95 percent confidence interval	
Effect of entering counseling pre-non-modification cures--any counseling			
Pre-HAMP[a]	0.34	0.31	0.37
Post-HAMP[b]	0.61	0.55	0.67
Level 1 counseling			
Pre-HAMP[a]	0.35	0.32	0.38
Post-HAMP[b]	0.65	0.60	0.70
Level 2 counseling			
Pre-HAMP[a]	0.34	0.30	0.38
Post-HAMP[b]	0.58	0.52	0.64
Level 3 counseling			
Pre-HAMP[a]	0.33	0.30	0.36
Post-HAMP[b]	0.56	0.50	0.62

Source: LOGIT model estimates from NFMC program data January–December 2009, and LPS loan performance data through December 2010.
[a] The pre-HAMP net odds ratio reflects netting out the effect of unobservable differences between NFMC and non-NFMC borrowers.
[b] The post-HAMP net odds ratio reflects netting out those unobservable differences and including the interaction between counseling and the HAMP environment.

Figure 6 translates the non-modification cure redefaults odds ratios to cumulative percentages of loans not redefaulting, using means and modes levels for non-counseling variables. Before HAMP, non-counseled borrowers redefaulted at a rate of 8 to 9 percent a month, compared with only 4 to 5 percent for borrowers who received counseling. As a result, counseling increased the overall percentage of borrowers avoiding recidivism from 29 to 64 percent after nine months, which corresponds to lowering the cumulative redefault rate from 71 to 36 percent, or a reduction of 49 percent.

For non-modification cures obtained once HAMP began, the effect of counseling on redefault is again smaller than the pre-HAMP impact but still substantial. After the start of HAMP, only about 2 to 4 percent of the homeowners with counseling redefaulted each month, compared with 4 to 5 percent among those without counseling assistance. Borrowers who received counseling had a 74 percent probability of sustaining their cured loans over nine months, compared with a 62 percent probability for those without counseling. The 12 percentage point difference in sustainability rates by the ninth month means that counseling lowered recidivism for these cures by nearly 32 percent (from 38 to 26 percent).

Figure 6: Estimated Cumulative Redefault Rates for Non-modification Cures for Counseled and Non-Counseled Homeowners



Source: LOGIT model estimates from NFMC program data for 2008 and 2009 and LPS data for outcomes through December 2010.
Note: The calculations underlying this figure are contained in appendix R.

The presence of HAMP also significantly affected non-modification-cure redefaults, as it did modification-cure redefaults, for both counseled and non-counseled borrowers. For people without counseling, recidivism rates were lower for those who obtained their modifications after HAMP started. In fact, the size of the effect was similar to the reduction in redefaults that non-counseled borrowers would have incurred had they received pre-HAMP counseling. Similarly, for people with counseling, the advantage to those obtaining non-modification cures after HAMP was about as great as the benefit from receiving counseling in that period. In aggregate, then, the combined impact of curing without a loan modification in the post-HAMP period and obtaining counseling was a 63 percent reduction in redefaults (from 71 to 26 percent), compared with borrowers with pre-HAMP cures and no counseling assistance.

Interaction models

We examined potentially different impacts of counseling on redefaults of non-modified cured loans depending on borrower, loan, and metropolitan area/neighborhood characteristics. This involved interactions between those characteristics and the prime counseling indicator variable—this time, entering counseling before obtaining a non-modification cure. As in the case of modification cures, the largest interaction was actually between entering counseling and the HAMP period, which we discussed above.

Turning to the other control characteristics, again every borrower population group, and households with every type of mortgage loan and in every set of metropolitan area/neighborhood circumstances received substantial benefits from counseling, decreasing non-modification cure redefaults. The conclusion held both before and after the start of HAMP. There were some smaller variations in the size of counseling's effects on redefaults following the non-modification cures. They were predominantly among loan characteristics, not borrower or location characteristics.

- Just as with modification-cure redefaults, African American borrowers received modestly less benefit from counseling in terms of lowered redefaults than did non-Hispanic whites, but they did get substantial benefit nonetheless. Non-counseled African Americans started out with fewer redefaults than whites, other things equal. They benefited significantly from counseling in reducing non-modification-cure redefaults and were very much better off in terms of redefaults than without it. But if they cured their loans after HAMP had begun, they did get a modestly smaller reduction in redefaults than white non-Hispanics did from counseling—perhaps because they started from a higher non-counseling base.
- Other population groups shared the benefits of counseling equally, and counseling's effect was not sensitive to differences in metropolitan areas or neighborhoods, except very minimally.

- ARM and especially subprime loan borrowers obtained somewhat less counseling benefit in terms of likelihood of non-modification cure redefaults than did fixed-interest and prime mortgagees.
- Borrowers with loans held by portfolio lenders started from a lower level of redefaults and benefited slightly less from counseling.

The complete effects of other characteristics on counseling impacts on non-modification cure redefaults, before and after the start of HAMP, is summarized in table 14.

Table 14: Summary of Interaction Effects of Counseling on Probability of Redefault after Non-Modification Cure

	Significant at *p* < .05?	**Direction**
Black	Yes	Positive
Asian	No	n/a
Ethnicity	No	n/a
Income	No	n/a
Original loan amount	Yes	Positive
Current interest rate	Yes	Positive
Subprime (mortgage grade B,C)	Yes	Positive
ARM	Yes	Positive
Interest of other type	No	n/a
Option ARM	No	n/a
Agency loan	Yes	Negative
Government loan	No	n/a
Portfolio loan	Yes	Positive
Jumbo loan	No	n/a
Cure occurs April '09 or later	Yes	Positive
Tract loan approval rate	Yes	Negative
Tract median mtg. amount	Yes	Positive
Change in unemployment rate	Yes	Positive
Percent change in house price index	Yes	Negative
Loan-to-value ratio	No	n/a
Loan-to-value ratio not 80	Yes	Negative

Source: LOGIT model estimates from NFMC program data for January 2008—December 2009 and LPS loan performance data through December 2010.
Note: We used a method outlined by Norton et al. (2004) to measure interaction effects and their statistical significance.

Descriptive analysis of obtaining and sustaining cures

Because the recidivism impacts of counseling for recipients of non-modification cures were smaller than the impact figures for redefault of modification cures, the number of sustained cures—combining modification and non-modification cures—is dependent not only on the *total* number of homeowners obtaining cures and seeking counseling, but also on the mix of cures with modifications and without. This section looks at the determination of numbers of cures obtained and counseling's impact on those numbers. It then couples the impact of counseling on cures and on sustaining those cures. We look first at modification cures and non-modification cures separately, then at their combination.

All the recidivism analysis reported to this point, aimed at answering sustainability question 1, takes the initial curing of loans as a given and analyzes the sustainability of those cures from that point. But, as we have seen earlier, cures are in part a result of counseling. Ultimately, an important part of what we care about is curing defaulted loans for people in difficulty with their mortgages and keeping them cured. Our second sustainability measure, discussed below, combined the likelihood that a troubled loan was cured and that a cure was sustained. These two likelihoods could be used to compute the rate at which defaults became sustained cures, both with counseling help and without.

To illustrate this combined effect, we repeat the analytic framework in figures 3 and 4 here as figures 7 and 8. Consider first loan modifications that cure troubled loans. The top two boxes of figure 7 represent the first portion of this model: counseling improving loan-cure rates, through modification, for initially seriously troubled loans. These cured loans then feed into the middle and bottom rows of boxes, which determine what share of modification-cured loans are thereafter sustained. The entire figure represents the combining of increased curing and increased sustaining given a cure. Here we outline the analysis of the top two boxes regarding loan-cure rates and then the combined impact of counseling within the entire figure, covering cure rates and sustaining the cures.

Next, consider loans cured without modifications. The top two boxes of figure 8 represent the first portion of the model, again showing counseling potentially improving loan-cure rates but absent modification. The cured loans then feed into the bottom row of boxes which determine what share of them are sustained, in this case without a separate consideration of the size of modification payment reduction.

Figure 7: Framework of Counseling's Effects on Loan Curing through Modification and Sustaining Outcomes

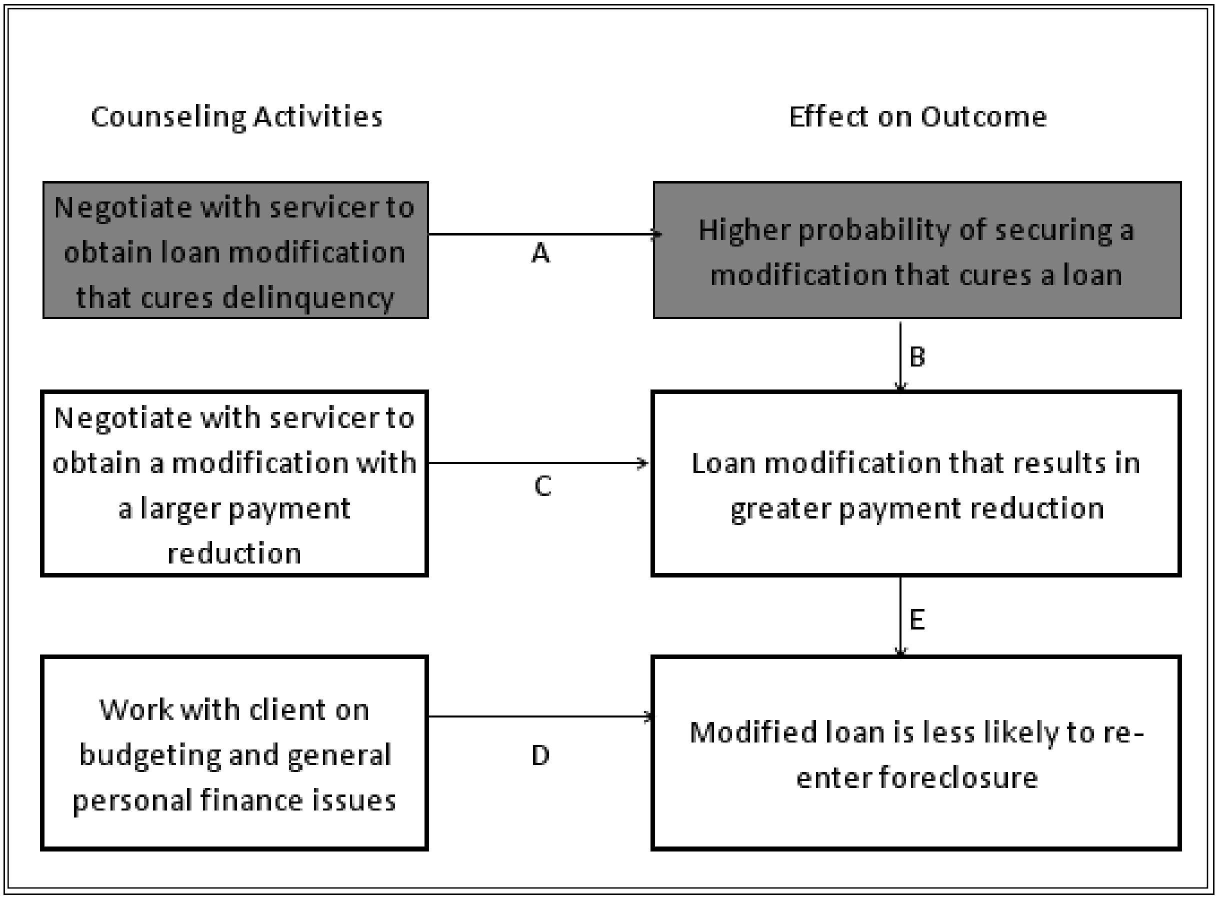
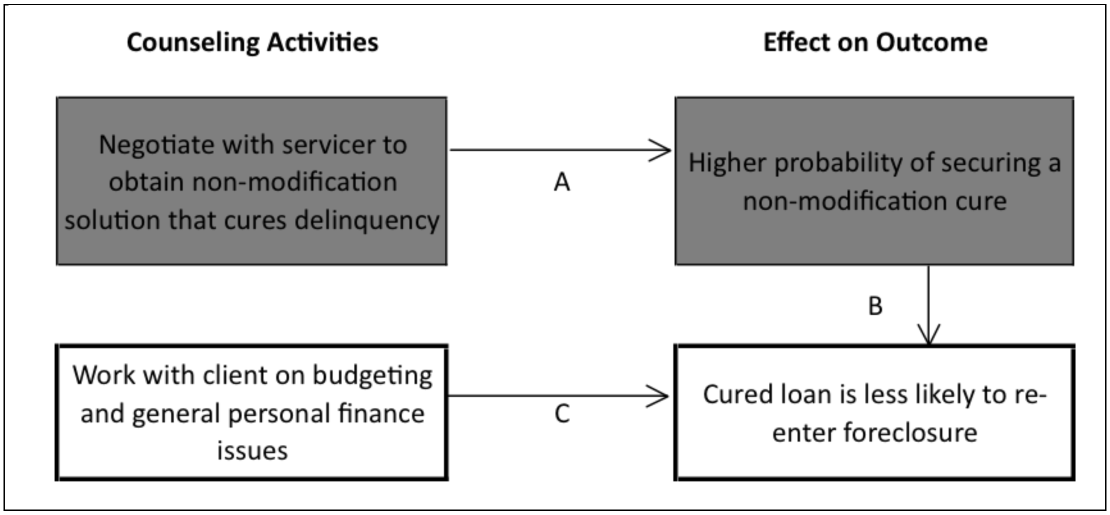


Figure 8: Framework of Counseling's Effects on Loan Curing without Modification and Sustaining Outcomes



We have already seen that cures are more common for NFMC-counseled loans than for non-counseled loans, with 50 percent of all serious delinquencies and foreclosures cured to current with counseling compared with 38 percent without such aid (table 10). Further, a higher percentage of counseled cures were associated with loan modifications than cures of non-counseled loans. The redefault modeling reported found that loans cured with NFMC help were more frequently sustained than were non-NFMC loans, and that this was especially true for loans cured with modifications. That combination of findings suggests that NFMC homeowners more often both cured and avoided redefault, because they cured more defaults to begin with, sustained more cures overall, and produced more curing modifications that in turn were more likely sustained than other cures.

To pin down these differences in sustained cures more fully, we first turn to multivariate analysis of curing troubled loans with and without counseling. Then we combine those modeling results for cures with those already obtained for sustaining cures, to compute differences in the rates of both curing and sustaining troubled loans.

NFMC program's effect on both curing and sustaining together

Turning to multivariate analysis of the two-part, cure-and-sustain impact of counseling, we combined two sets of models:

1. redefault models for modification and non-modification cures just reported, and
2. modification and non-modification cure models

The modification and non-modification cure models estimated the probability of bringing to current mortgages that were previously in serious delinquency or in foreclosure, and included variables to measure the impact of counseling, the start of HAMP, and the interaction between counseling and the presence of HAMP. We estimated the cure models twice, to represent the probability of modification cures and non-modification cures.

Table 15 reports the key parameters of cure models, while the equation itself is equation 3 in box 1 (page 65) and the full model estimations are in appendix P. For the simple entry to counseling before a modification, the relative odds of obtaining a modification cure from a serious delinquency or foreclosure increased by 89 percent from the odds without counseling assistance in the pre-HAMP environment. The increase in relative odds was 97 percent in the post-HAMP case. Impacts of levels 2 and 3 of counseling were substantially larger than for level 1 before HAMP and somewhat less so once HAMP began but still significant for level 3. Perhaps HAMP loan modification guidelines helped people gain modifications without extensive counseling, although some counselors we interviewed said getting a HAMP modification was tough without continued counseling support.

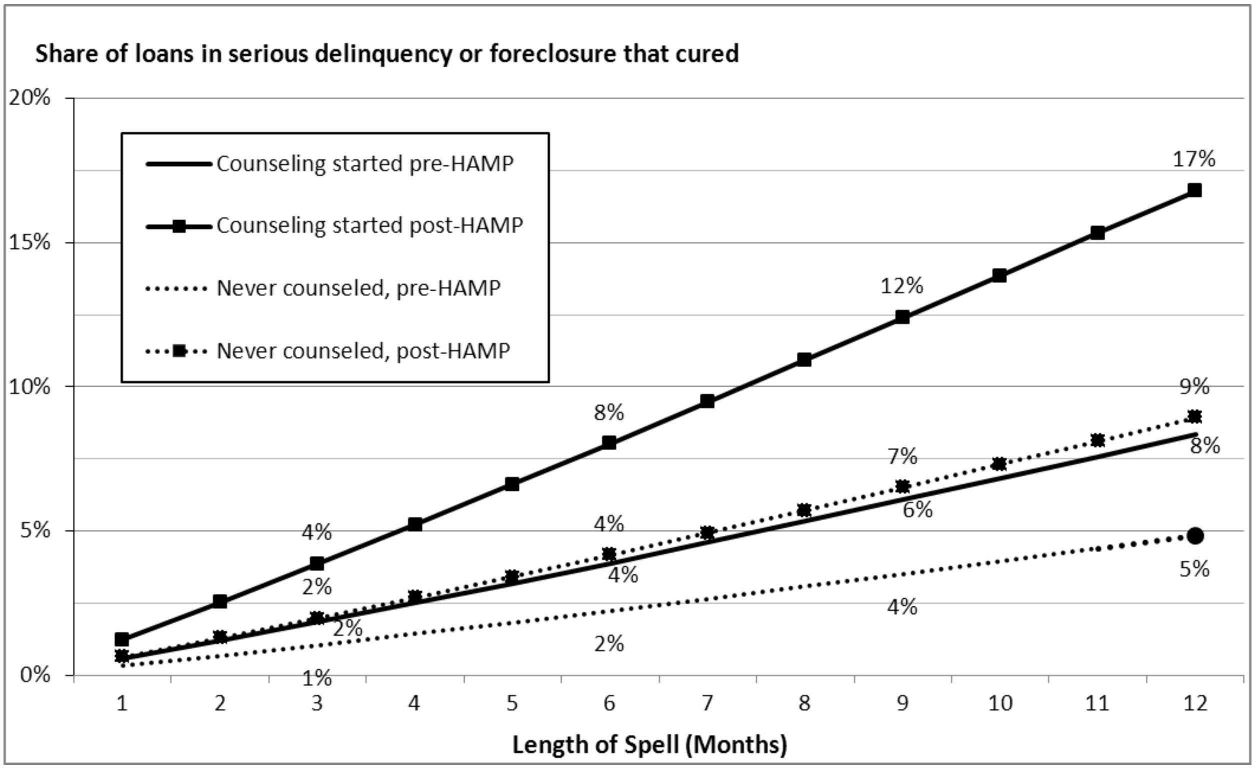
Table 15: LOGIT Model Odds Ratio Estimates for Counseling Effects on Likelihood of Modification, NFMC and non-NFMC

	Point estimate	95 percent confidence interval	
Entered counseling pre-HAMP	1.89	1.73	2.05
Entered counseling post-HAMP	1.97	1.87	2.07
Counseling level effects			
Level 1, pre-HAMP	1.35	1.28	1.42
Level 1, post-HAMP	1.69	1.56	1.82
Level 2, pre-HAMP	2.03	1.92	2.14
Level 2, post-HAMP	1.88	1.70	2.06
Level 3, pre-HAMP	2.14	2.03	2.25
Level 3, post-HAMP	2.31	2.14	2.48

Sources: LOGIT model estimates from NFMC program data for January 2008–December 2009 and LPS loan performance data through December 2009.

Translating these relative odds to percentages of modification cures obtained, after 12 months, homeowners receiving counseling assistance had modification cures for 8 percent of loans, compared with 5 percent for those without counseling, in the period before HAMP—a 60 percent increase with counseling (figure 9). The companion figures were 17 percent and 9 percent with and without counseling after HAMP—an 88 percent increase with counseling.

Figure 9: Estimated Differences in Cumulative Cures by Modification between Counseled and Non-Counseled Homeowners



Source: LOGIT model estimates from NFMC program data for January 2008–December 2009 and LPS loan performance data through December 2009.
Note: Computations underlying the figure are contained in appendix R.

We also find as a byproduct of our analysis of counseling that the HAMP environment had about the same impact, with and without counseling, as did counseling before and after the beginning of HAMP. In addition, we tested whether borrower, loan, and metropolitan area/neighborhood characteristics significantly affected the impacts of counseling on the likelihood of curing loans with modifications. Our findings about these interactions, beyond the interaction of counseling and HAMP already discussed, were as follows:

- Once again, every borrower population group and households with every type of mortgage loan received substantial benefited from counseling, before and after HAMP, in increasing loan modification cures.
- Most interactions between counseling, borrower, and metropolitan area/neighborhood characteristics were either not statistically significant or small in scale compared with the overall probabilities of modification cures. Counseling increased modification cures in about the same substantial amounts regardless of variations in borrower and location characteristics.

- Loan characteristics did, in many cases, affect the size of counseling impacts significantly.
- Among borrower characteristics, the only substantial interaction effect was a larger benefit from counseling for African Americans entering counseling before HAMP than for whites. No racial, ethnic, or income subgroup obtained a substantially smaller benefit than non-Hispanic whites. In most cases, the benefits of counseling in obtaining loan modification cures were essentially identical.
- None of the neighborhood and regional characteristics substantially affected counseling's impact on modification cures.
- People with ARMs received reduced benefits from counseling, compared with those with fixed-rate mortgages, after HAMP began. Both subprime borrowers and Option ARM borrowers got higher benefits before HAMP and smaller ones after. Apparently, counseling was initially slightly more help in getting modification cures to people with riskier mortgages; but once HAMP began to set modification standards, counseling was somewhat more helpful to those with standard fixed-rate loans.
- Higher interest rate borrowers also got more benefit from counseling than others before HAMP, and less after HAMP started, though the differences were modest. That may reflect counseling's aid in getting lowered interest on expensive ARMs that dominated in the earlier part of the mortgage crisis.
- People with loans held in portfolio by original lenders got more benefit from counseling in terms of additional modification cures before HAMP than did others, and very little benefit thereafter. Perhaps portfolio lenders were easier for counselors to work with earlier on, given that portfolio lenders, by holding loans on their own books, have more discretion to modify loans. This relative discretion decreased over time, as servicers of loans held in trusts started to modify more loans once HAMP standards were in place.

The complete effects of other characteristics on counseling impacts on loan modification cures, before and after HAMP began, are summarized in table 16.

Table 16: Interaction Effects of Counseling on Probability of a Loan Modification Cure

	Entered Counseling pre-HAMP		**Entered Counseling post-HAMP**	
	Significant at *p* < .05?	**Direction**	**Significant at *p* < .05?**	**Direction**
Black	Yes	Positive	No	n/a
Asian	Yes	Negative	No	n/a
Ethnicity	No	n/a	No	n/a
Income	Yes	Positive	Yes	Positive
Original loan amount	No	n/a	No	n/a
Current interest rate	Yes	Positive	Yes	Negative
Subprime (mortgage grade B,C)	Yes	Positive	Yes	Negative
ARM	No	n/a	Yes	Negative
Interest of other type	No	n/a	No	n/a
Option ARM	Yes	Positive	Yes	Negative
Agency loan	Yes	Negative	Yes	Positive
Government loan	No	n/a	No	n/a
Portfolio loan	Yes	Positive	Yes	Negative
Jumbo loan	Yes	Positive	No	n/a
Tract loan approval rate	No	n/a	No	n/a
Tract median mortgage amount	Yes	Positive	No	n/a
Change in unemployment rate	No	n/a	No	n/a
Percent change in house price index	Yes	Positive	No	n/a
Loan-to-value ratio	No	n/a	No	n/a
Loan-to-value ratio not 80	No	n/a	No	n/a

Source: LOGIT model estimates from NFMC program data for January 2008–December 2009 and LPS loan performance data through December 2009.

Turning to the impact of counseling on *non-modification cures*, the results were very different from those for modifications (table 17). Counseling assistance was associated with *fewer* non-modification cures, overall and at all counseling levels. The relative odds of a non-modification cure decreased over 30 percent for counseled loans both before and after HAMP. The drop was mostly consistent across levels of counseling, except that after HAMP began the drop for counseling levels 2 and 3 were larger. The full model results are presented in appendix Q.

Apparently, some people who would have obtained non-modification cures without counseling were able to instead obtain cures with modifications with counseling assistance. That reduced non-modification cures for people with counseling. The effect was especially strong once HAMP modifications became available (and set standards for other modifications), particularly for people who received higher levels of counseling, which observers we interviewed indicated was often needed to bring about successful modifications.

Table 17: LOGIT Model Odds Ratio Estimates for Counseling Effects on Likelihood of Non-Modification Cure for Seriously Delinquent and Foreclosed Loans

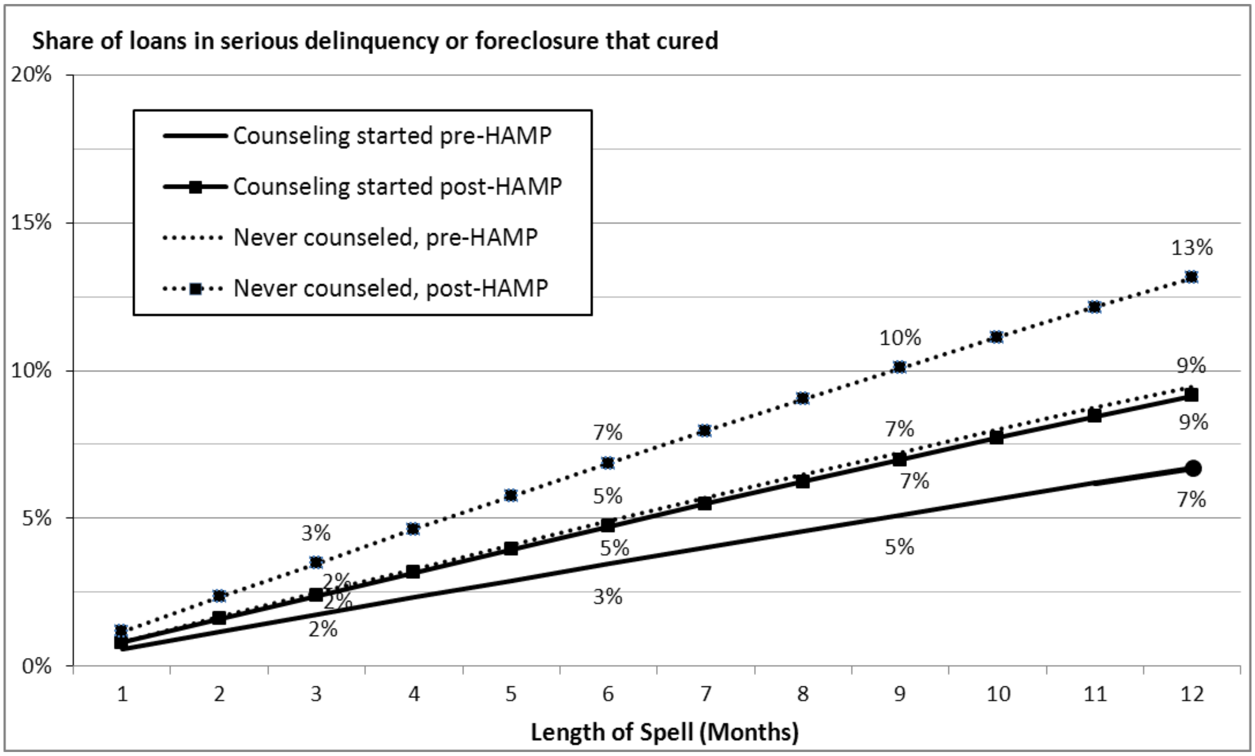
	Point estimate	**95 percent confidence interval**	
Entered counseling pre-HAMP	0.68	0.64	0.72
Entered counseling post-HAMP	0.68	0.62	0.74
Counseling level effects			
Level 1, pre-HAMP	0.70	0.67	0.73
Level 1, post-HAMP	0.73	0.67	0.79
Level 2, pre-HAMP	0.71	0.67	0.75
Level 2, post-HAMP	0.62	0.54	0.70
Level 3, pre-HAMP	0.70	0.66	0.74
Level 3, post-HAMP	0.64	0.58	0.70

Source: LOGIT model estimates from NFMC program data for January 2008–December 2009 and LPS loan performance data through December 2009.

In figure 10, we again convert odds ratios to percentages of troubled loans curing without modifications with and without counseling. At 12 months after loans became seriously delinquent or entered foreclosure, cure rates were 9 percent without counseling compared with 7 percent with counseling pre-HAMP, and 13 percent without counseling to 9 percent with counseling thereafter.[55] In addition, the HAMP environment increased non-modification cures, as it had done for modification cures.

[55] For reasons related to how our analysis evolved, with separate models for cures with modification and without, we estimated the two cures models separately with binomial LOGIT analysis rather than combining the two cures outcomes in a single multinomial LOGIT. We then corrected for the timing of competing hazards using the method outlined in Begg and Gray (1984).

Figure 10: Estimated Differences in Cumulative Non-Modification Cures between Counseled and Non-Counseled Homeowners



Source: LOGIT model estimates from NFMC program data for January 2008 through December 2009 and LPS Loan Performance data through December 2009.
Note: The calculations underlying this figure are contained in appendix R.

These negative impacts of counseling on non-modification cures were not fundamentally altered by particular borrower, loan, or metropolitan area/neighborhood characteristics. Nearly every population, loan, and metropolitan area/neighborhood had the same or fewer non-modification cures with counseling than without, the opposite of the result for modification cures. Some differences in counseling impacts were noticeable, almost all of them in loan characteristics.

- Asian Americans were the only population segment with a significant interaction with counseling. As a result, Asians obtained a positive counseling impact on non-modification cures, rather than the negative results for other populations, in the post-HAMP period. As with modification cures, no subgroup received lower benefits (i.e., fewer non-modification cures) as a result of counseling than white non-Hispanics; most received the same.
- Borrowers with riskier loan types received better benefits or smaller losses from counseling in terms of non-modification cures than did others, both before and after HAMP began but especially after. Holders of ARMs had enough of an increase in non-modification cure benefits from counseling (compared to fixed-rate mortgages) to leave

them with unchanged numbers of non-modification cures even as overall non-modification cures declined with counseling.

- Similarly, subprime borrowers had less negative counseling effect on non-modification cures both before and after HAMP began, and holders of Option ARMs brought their counseling effects on non-modification cures to neutral.
- Counseling reductions in non-modification cures were relatively larger for agency loans pre- and especially post-HAMP, and portfolio lenders had those same results post-HAMP. Private investor-securitized loans had relatively more benefit from counseling.
- Jumbo loan holders did very significantly better than others in effects on non-modification cures from counseling after HAMP began, with the result that they had the same likelihood of non-modification cures with counseling as without.
- High loan-to-value borrowers lost more non-modification cures with counseling after HAMP than did lower LTV borrowers.

The complete effects of other characteristics on counseling impacts on non-modification cures, before and after HAMP began, are summarized in table 18.

Table 18: Interaction Effects of Counseling on Probability of a Non- Modification Cure

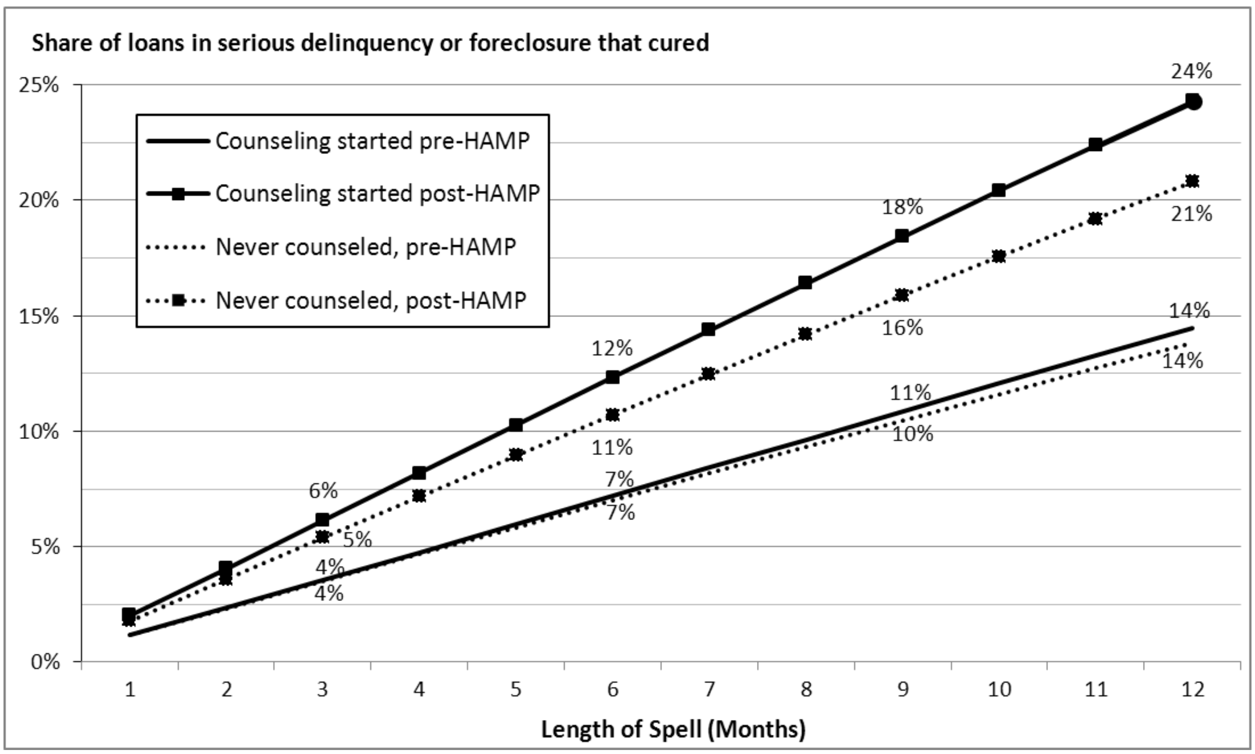
	Entered Counseling before 4/1/09		Entered Counseling after 3/31/09	
	Significant at *p* < .05?	**Direction**	**Significant at *p* <. 05?**	**Direction**
Black	Yes	Positive	No	n/a
Asian	No	n/a	Yes	Positive
Ethnicity	Yes	Negative	Yes	Negative
Income	Yes	Positive	Yes	Positive
Original loan amount	Yes	Negative, unless loan exceeds about $700,000	No, unless loan exceeds $600,00	n/a
Current interest rate	Yes	Negative	Yes	Negative
Subprime (mortgage grade B,C)	Yes	Positive	Yes	Positive
ARM	Yes	Positive	Yes	Positive
Interest of other type	No	n/a	No	n/a
Option ARM	No	n/a	Yes	Positive
Agency loan	Yes	Negative	Yes	Negative
Government loan	No	n/a	No	n/a
Portfolio loan	No	n/a	Yes	Negative
Jumbo loan	No	n/a	Yes	Positive
Tract loan approval rate	Yes	Negative	No	n/a
Tract median mortgage amount	Yes	Positive	Yes	Positive
Change in unemployment rate	Yes	Positive	Yes	Positive
Percent change in house price index	Yes	Positive	Yes	Negative
Loan to value ratio	No	n/a	Yes	Negative
Loan to value ratio not 80	No	n/a	Yes	Negative

Source: LOGIT model estimates from NFMC program data for January 2008–December 2009 and LPS loan performance data through December 2009.

Thus, counseling lowered the probability of non-modification cures and raised the probability of cures through modification. Unless one believes that counseling hurts a person's chances of getting a cure, one portion of the impact of counseling on modifications appears to have come from moving people who would have received non-modification cures on their own into cures with modifications. Modifications benefit homeowners by lowering their payments. Because modification cures in general had lower redefault rates, this change could also benefit homeowners by increasing the number of sustained cures. And we have seen that counseling provided more of a boost in sustaining modified cures, so increasing those cures better positions borrowers to take advantage of NFMC services.

The combined impact of counseling on all cures of loans in serious delinquency or foreclosure to current—both with and without loan modifications—is shown in figure 11. Before HAMP's implementation, total cures were virtually identical with counseling and without. After the start of HAMP, total cures were higher with counseling, at 24 percent of loans, versus 21 percent without counseling. Interestingly, pre- versus post-HAMP cure rates for both counseled and non-counseled loans showed a more substantial difference than did counseling itself.

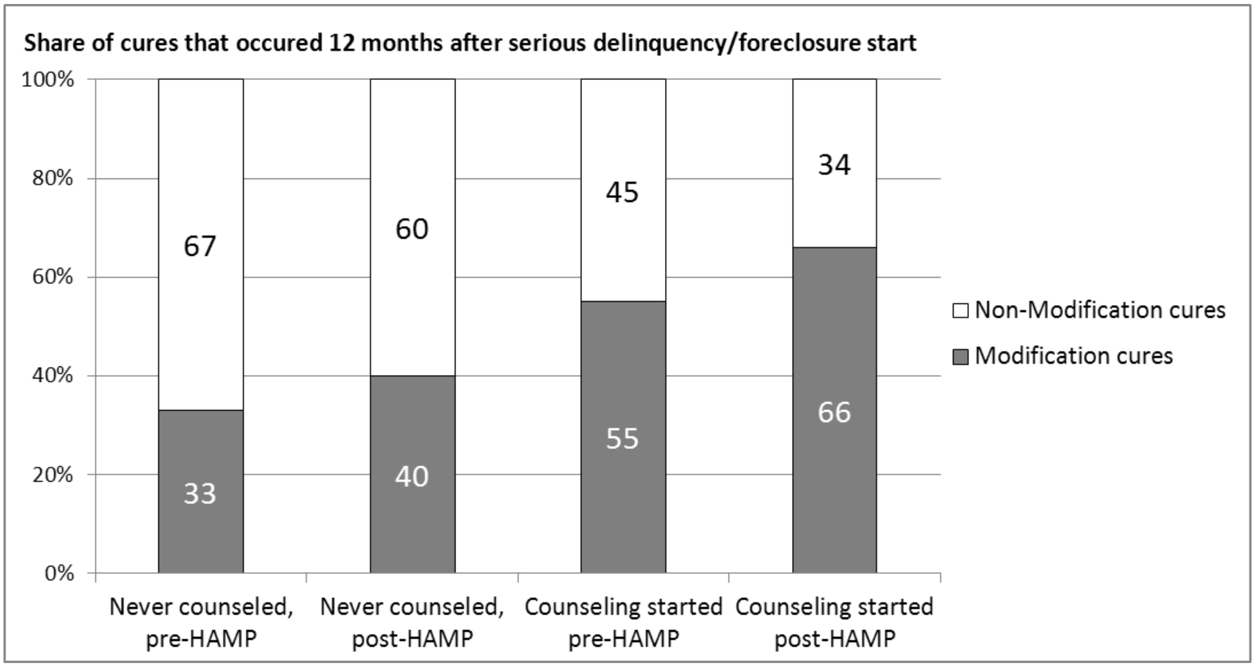
Figure 11: Estimated Differences in Cumulative Total Cures between Counseled and Non-Counseled Homeowners



Source: LOGIT model estimates from NFMC program data for January 2008–December 2009 and LPS loan performance data through December 2009.
Note: The calculations underlying this figure are contained in appendix R.

The mix of cures produced, between those with modifications and without, changed more sharply between loans with counseling and those without, as shown in figure 12. Without counseling and HAMP, cures by modification made up only one-third of all cures, other factors equal. The modification cures numbers rose and non-modification cures numbers fell both with counseling and with HAMP's arrival, so counseled homeowners after HAMP obtained two-thirds of their cures through modifications.

Figure 12: Percentages of Cures With and Without Loan Modifications, With and Without Counseling



Source: LOGIT model estimates from NFMC program data for January 2008–December 2009 and LPS loan performance data through December 2009.

We now have all the information needed to answer our second sustainability question: how counseling affects the probability of achieving sustained cures for troubled loans, in the two steps of gaining cures and preventing recidivism. The cures models estimate the effects of counseling on cures as represented in the first row of boxes in figures 7 and 8. The redefault models represent what happens in terms of increased sustainability of those cures (the lower rows of the two figures) as a result of counseling.

We have previously seen that counseling has larger-scale effects in sustaining additional cures for cures that result from loan modifications than for those that use other means. Thus the answer to our second sustainability question, how counseling affects the probability of obtaining sustained cures, is dependent not only on how many *total* cures are generated with and without counseling but also on their *mix*. And then those cure effects are strongly magnified by the large counseling effects in reducing redefaults of cures in general and cures by modification in particular. The *mix* of cures between modifications and non-modifications matters. Total cures rose with counseling, with a heavy emphasis on modification cures. Both types of cures are much more likely to be sustained if they were obtained with counseling assistance. The combined effect on probabilities of loans proceeding from troubled mortgage to sustained cure will be most driven by the effects of counseling on redefault rates. But there will be two further smaller boosts, from the increase in total cures and from the counseling-assisted shift away from non-modification cures and toward modification cures where counseling effects on recidivism are larger.

Computing the impact of counseling on the probability of sustained cures for a group of loans in serious delinquency or foreclosure from our five models[56] requires assumptions about the timing of events. We have separate estimates of counseling effects before and after HAMP: in the cures models, for entry to counseling before and after HAMP; and in the redefault model, for cures occurring before and after HAMP began. For purposes of this estimate, we will assume that loans are either pre-HAMP in both entry to counseling and receipt of cures or post-HAMP in both circumstances. Our computation is then for the cumulative probability for loans curing by 10 months following serious delinquency or foreclosure and sustaining cures for 9 months following their cures.[57] The results are summarized in table 19 as percentages cured and sustained out of a cohort of loans initially in trouble.

Table 19: Percentage of Loans Cured and Sustained With and Without Counseling

	Loans Cured and Sustained per 100 Loans in Serious Delinquency or Foreclosure			
	With Counseling		**Without Counseling**	
	Pre-HAMP	**Post-HAMP**	**Pre-HAMP**	**Post-HAMP**
Modification cures sustained	5.5	12.5	1.4	4.4
Non-modification cures sustained	3.8	5.9	2.3	6.8
Total loans cured and sustained	9.3	18.4	3.7	11.2

Source: LOGIT model estimates from NFMC program data for January 2008–December 2009 and LPS loan performance data through December 2009 for cures and December 2010 for redefaults.

The table shows that the cumulative total percentage of loans cured and sustained with counseling in the pre-HAMP period (9.3 percent) was two-and-a-half times the percentage without counseling (3.7 percent), reflecting principally the large difference between redefault rates of cures once obtained. In the period with HAMP in place, the percentage of loans cured

[56] Modification cures, non-modification cures, modification cure redefaults, non-modification cure redefaults, and modification amount.

[57] Ten and nine are the mean number of months for which we observe defaulted troubled loans in the cure analysis and cured loans in the redefault analysis, respectively.

and sustained with counseling (18.4 percent) was nearly two-thirds higher than the percentage without counseling (11.2 percent). Counseling in both periods showed strong effects in helping people become current on their loans and stay that way. Counseling and the HAMP environment together raise the rate of sustained cures by a factor of five.[58]

Note, however, that most seriously delinquent loans and foreclosure starts were not cured and therefore not able to be sustained in cures. In the HAMP period, even with counseling, modification plus non-modification cures totaled 24 percent of significantly troubled loans. Most homeowners who achieved cures stayed current, but cures were very limited. Homeowners are suffering extensive losses of homes once they get into seriously trouble. Counseling and HAMP are making big differences, but the problem persists.

NFMC Cost-Benefit Analysis: Foreclosure Completions Averted

The previous analyses show that NFMC counseling has several benefits: it results in loan modifications with larger payment reductions, helps homeowners cure seriously delinquent loans, and results in more sustainable cures. To determine if these effects helped clients remain in their homes, we estimated LOGIT models that measured the impact of counseling on the likelihood of foreclosure completion, which would result in the homeowner losing his or her home.[59] As discussed earlier, we cannot use a model that corrects for potential selection bias because there are so few observations in which a loan completed foreclosure before counseling, and so we cannot use *preEC* (a dummy variable that equals 1 for periods observed before an NFMC client enters counseling) as a variable in the model.

Instead, we ran two LOGIT models that correspond to a world with counseling and a world without counseling. The WWOC model was estimated from a dataset that censored monthly loan observations for clients upon entry into the NFMC program, in addition to when a foreclosure completed or at the end of the observation period, whichever came first. In contrast, the WWC model did not censor observations at the start of counseling; observations were only censored at the time a foreclosure completed or at the end of the observation period, whichever came first. In addition, the WWC model included dummy variables that identified NFMC clients who entered counseling after March 31, 2009, so we could determine if the presence of HAMP changed the effect of counseling on foreclosure completions. In both models we included a counter that measures the number of months that a loan is observed after January 2008, which is the earliest intake month that we have for a client; this counter allows us to estimate the change in foreclosure completion rates over time.

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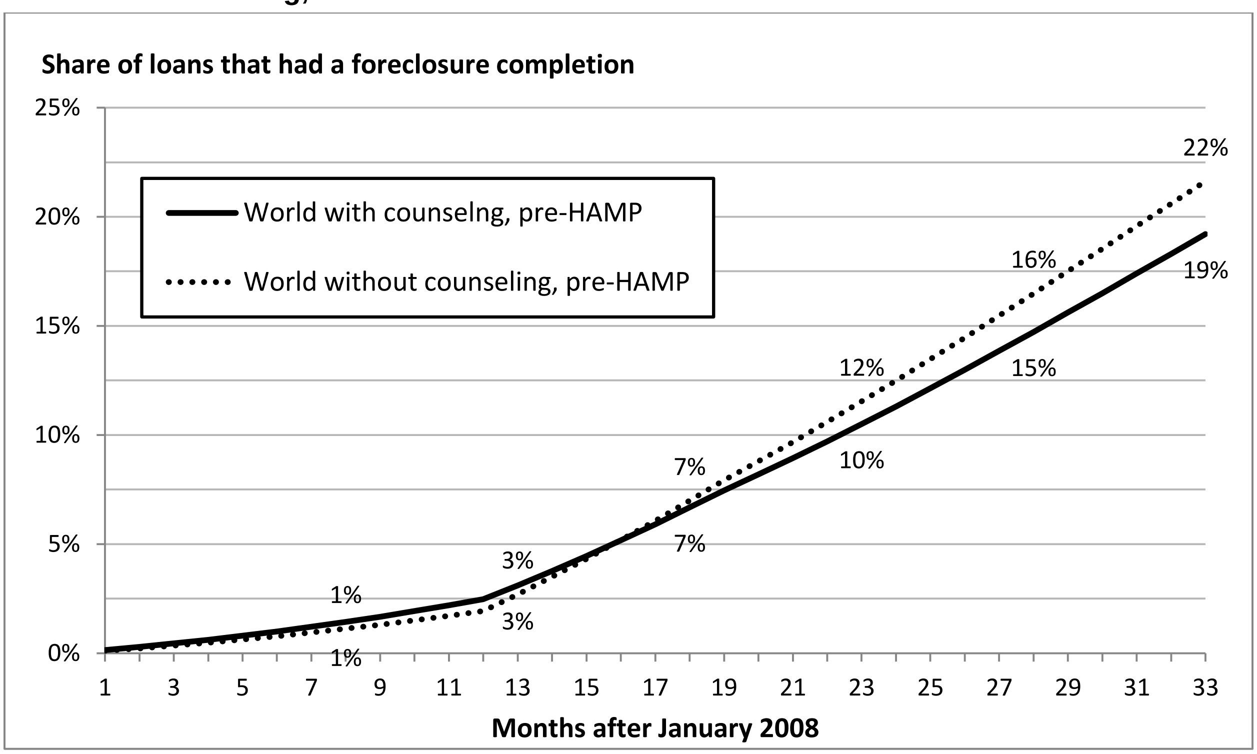
[58] 18.4/3.7 = 5.0.

[59] The LPS data define a foreclosure completion as a foreclosure sale, a short sale, or a deed-in-lieu. As noted earlier, the data do not permit us to distinguish between these different loan outcomes.

To measure the program effect, we produced separate survivor curves using the parameter estimates from the WWC and WWOC models and the means from the sample used to estimate the models. In other words, we simulated what share of loans would have a foreclosure completion in a world with the NFMC program (WWC model) and a world without the NFMC program (WWOC). The difference in the share of loans that complete a foreclosure between the two models reflects the impact of NFMC counseling on the overall number of foreclosed loans that do not complete—and so provides an estimate of foreclosures avoided by NFMC clients. As noted, the inclusion of the HAMP dummy variable allowed us to test whether counseling's effect on foreclosure completions differed before and after HAMP.

The results (presented in the following figures; full model results are in appendix S) show that NFMC clients who entered counseling before HAMP would have had about the same number of completed foreclosures by the end of December 2010 (the last observed month), whether or not the NFMC program was available (figure 13). The average number of months observed for clients who entered counseling pre-HAMP was 16, and at which point we estimated that there was no statistically significant difference in the share of loans that completed a foreclosure (about 4 to 5 percent) in the WWC and WWOC models.

Figure 13: Estimated Share of Loans That Had a Foreclosure Completion, with and without Counseling, Pre-HAMP

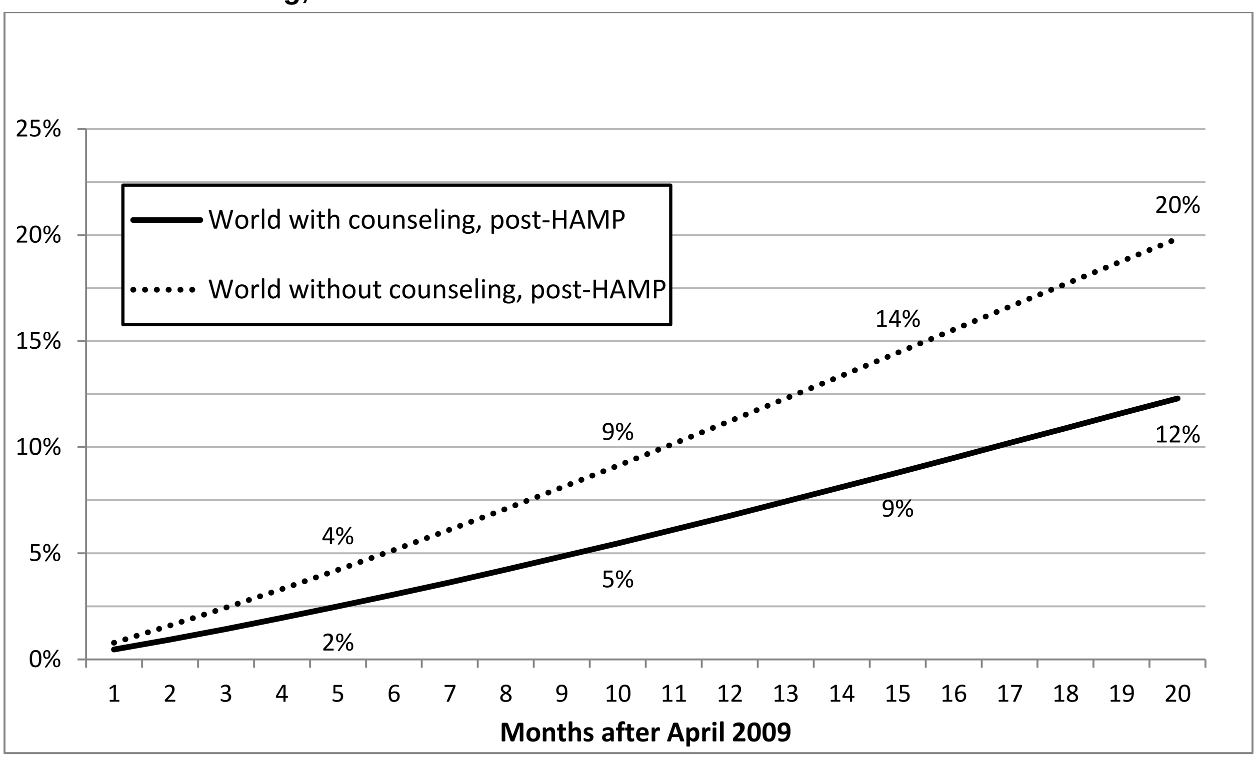


Source: LOGIT model estimates from NFMC program data for January 2008–December 2009 and LPS loan performance data through December 2010.

This is not the case for clients who entered counseling after HAMP: our simulations indicated that about 6 percent of NFMC clients who entered counseling after March 2009 would have had a foreclosure completion within 11 months (the average number of observations for these clients) compared with 10 percent if NFMC counseling had not existed (figure 14). These results indicate that counseling's ability to help homeowners avoid foreclosure completions increased after the start of HAMP.

The estimated differences in the share of loans that complete a foreclosure using the WWC/WWOC method were nearly identical to those calculated using the parameter results from the WWC but setting the counseling flags to 0. (This is the same method that we used in the cure analyses simulations.) Therefore, there appears to be little selection bias affecting the results, which show an odds ratio for clients who entered counseling before HAMP of 0.80 and 0.57 for clients who entered counseling after HAMP. These results confirmed that NFMC clients had a lower probability of having a completed foreclosure in months after the HAMP program started.

Figure 14: Estimated Share of Loans That Had a Foreclosure Completion, with and without Counseling, Post-HAMP



Source: LOGIT model estimates from NFMC program data for January 2008–December 2009 and LPS loan performance data through December 2010.

Our modeling results showed that counseling helped clients who entered counseling avoid having their foreclosed loan completed. We estimated the number of foreclosures avoided using information on clients who entered counseling post-HAMP; our sample data show that about 72,000 NFMC clients entered counseling after March 31, 2009. Using the means of our observations, we estimated the number of foreclosure completions for NFMC clients who entered counseling after the start of HAMP for each month between May 2009 and December 2010.

This analysis indicated that counseling resulted in about 13,000 fewer foreclosure completions for NFMC clients by the end of December 2010.[60] Based on simulations of foreclosure completions for loans that entered foreclosure (compared with all loans), about one-third of the total number of foreclosures avoided result from loans that entered foreclosure but did not complete the process due to counseling.[61] The remaining two-thirds of the foreclosures avoided through December 2010 result from loans that avoided entering foreclosure in the first place, because of counseling's impact on increasing the likelihood of curing a loan and that such cures are more likely to have a loan modification with counseling and are more likely to avoid redefault.

The costs resulting from a foreclosure are substantial, and so we performed a benefit/cost estimate to determine if the savings resulting from avoiding foreclosures is greater than the cost of the NFMC program. These estimates assume that the 13,000 foreclosures avoided through December 2010 do not complete at some point in the future, and so the differential with counseling represents a permanent reduction in foreclosures completed.

Our benefit/cost calculation of the NFMC program is based on a methodology used by HUD (n.d.) for its Regulatory Impact Analysis of another foreclosure prevention effort, the Emergency Homeowners' Loan Program. In that study, HUD estimated costs created by foreclosures for four stakeholders: the homeowner of the foreclosed property, lenders, local governments, and surrounding property owners. We detail these costs and present estimates for each.

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[60] This estimate results from applying the difference in the estimated share of loans with a foreclosure completion (4 percent) between the WWC and WWOC after 11 months starting in May 2009 for the 72,000 clients who entered counseling after March 2009. We estimated from the sample that 2,900 fewer loans in the sample had a foreclosure avoided through the end of December 2010; our analyses are based on a 22 percent sample of NFMC clients, so 2,900 loans in the sample represents a total of about 13,000 NFMC clients.

[61] We estimated models (WWC and WWOC) but limited the analysis to loans that entered foreclosure. The models included a counter for the number of months a loan is observed after the foreclosure spell started. Using means and modes, we simulated the share of loans that entered foreclosure that would complete the process with and without counseling for clients who entered counseling either before or after HAMP started. These simulations estimate the number of foreclosed loans that would complete a foreclosure but do not take into account counseling's potential impact on clients avoiding a foreclosure start.

Homeowners

Owners of foreclosed properties incur moving costs, legal fees, and administrative charges. In a 1995 study of the Mortgage Foreclosure Prevention Program in Minneapolis and Saint Paul, Minnesota, Moreno estimated that owners pay a total of $7,200 in such costs. HUD adjusted this figure for inflation, and derived an estimate of about $10,000 (in 2010 dollars) for homeowner costs of a foreclosures.

These costs, of course, are in addition to the emotional stress of being forced from one's home and possibly a higher cost of housing in the future due to a poor credit rating. Since it is difficult to attach an estimated dollar value to these other costs, neither are included in the cost-benefit analysis. Nonetheless, they should be recognized as important benefits to homeowners for avoiding a foreclosure.

Lenders

Lenders realize significant losses on foreclosed properties. Recent data indicate that the loss severity (which is calculated by dividing the total loss amount by the unpaid principal balance of the loan at the time it becomes inactive) is about 50 percent. The mean unpaid principal balance of NFMC clients whose loans enter foreclosure is $225,000 at the time the loan enters foreclosure. As a result, the total lender loss avoided when preventing a foreclosure is $112,500.

But, as HUD points out in its Regulatory Impact Study, the total prevented loss to the lender from avoiding foreclosure is not the same as the social cost of foreclosure. The reason is that a portion of the losses realized by the lender reflect transfers, rather than a deadweight loss to society. For example, some lender losses result from owners' non-payment of their mortgage. This is a loss to the lender, but a gain to the owner. In addition, some lender losses result from declines in overall market property values, which do not happen because of the foreclosure.

As a result, HUD does not include transfers in its calculation of lender losses. Rather, in its Regulatory Impact Study HUD includes legal fees, court fees, maintenance and upkeep expenses, and broker fees when calculating lender losses. The reason is that these costs would not have been paid if the property had not been foreclosed upon and sold, and do represent transaction costs that decrease social welfare. In a 2008 study of recently foreclosed properties, Cutts and Merrill (2008) estimate that these costs make up 25 percent of the total costs realized by the lender, and we use that estimate for our analysis.

In addition, some of the loss realized by the lender results from properties being sold for lower than their appraised value because REO property owners (lenders) that hold these assets want to dispose of the properties as quickly as possible. (This is sometimes called a liquidating discount.) Pennington-Cross (2006) finds that REO properties suffer a 22 percentage point discount in appreciation, meaning that REO homes do not sell for as high a price as non-REO properties. HUD indicates that a portion of this discount can be considered a transfer from the lender to the purchaser of the property who acquires the home at a discount.

However, HUD counts a portion of this discount as a deadweight loss because owners whose homes end up in foreclosure will likely cease to maintain and upgrade the property, and may even actively disinvest. Cutts and Merrill (2008) explain that homeowners often damage property before losing a home through foreclosure, including damaging walls and windows and inducing flooding by clogging drains. The depreciation to the property is structural and real: the new owner must invest resources to restore the property to its pre-foreclosure state. Therefore, HUD assumes that half the liquidating discount on the property is a deadweight loss. HUD applies half the liquidating discount to the total unpaid principal balance of the mortgage, and so this cost is 11 percent of the total unpaid principal balance (UPB) of the mortgage (or 22 percent of the realized loss). Therefore, HUD estimates that the deadweight loss constitutes 36 percent of the total lender loss (25 percent transaction plus 11 percent damage), and we use the same assumption in our calculation.

Local government

A number of studies estimate costs borne by local governments resulting from foreclosure. HUD restricts its estimate to the costs estimated by Apgar, Duda, and Gorey (2005) in a scenario in which the property is vacant for a time, there is modest criminal activity, and the property is sold at auction. The study estimates local governments bear a total of $6,500 in costs during such a scenario. These costs are generated by administrative and legal costs and specifically exclude property tax losses, unpaid property taxes not recovered, utility taxes forgone, water bills unpaid, and property maintenance because these costs are actually a transfer from the local government to the owner.

Neighbors

Foreclosures resulting in long-term vacancies have a negative impact on the value of neighboring properties by reducing the physical appearance of the neighborhood, attracting crime, and depressing the local economy. Immergluck and Smith (2006) estimate that a foreclosure reduces each surrounding property’s value by 0.9 percent. Assuming an average property value of $171,100 (the mean value of sales prices for existing homes in 2010), HUD estimates each foreclosure creates a total of $13,900 in reduced property values. We use the same estimate in our calculation.

Table 20: Calculation of NFMC Program Benefit/Cost Analysis

Homeowner costs		$10,000
Local government costs		6,200
Surrounding owners' costs		13,900
Homeowner, local government, and surrounding owners' costs		$30,100
Mean unpaid principal balance for loans of NFMC clients who entered counseling after March 2009 at the time of the foreclosure start	$225,000	
Loss severity rate	50%	
Total unrealized loss by lender	$112,500	
Portion of unrealized loss that is a deadweight loss	36%	
Lender loss		40,500
Estimated deadweight loss for each foreclosure avoided		***$70,600***
Estimated foreclosures avoided		13,000
Total estimated deadweight loss avoided		$917,800,000
Round 1 funding		$130,000,000
Round 2 funding		177,500,000
Total Round 1 and Round 2 NFMC funding		$307,500,000
NFMC benefit/cost ratio		***3.0***
Total estimated per client cost for counseling		$500
Total per client benefit		$1,195
Total counseling benefit/cost ratio		***2.4***

Sources: For estimated homeowner, local government, surrounding property owners' losses and share of lender losses that is a deadweight loss, HUD (n.d.); for loss severity, TCW (2011).

As detailed above, by applying HUD's methodology we estimate that each foreclosure for NFMC clients generates $70,600 worth of deadweight losses. Note that this estimate is about the same as the $80,000 estimate by the Joint Economic Committee (2007).

We estimate that 13,000 fewer foreclosures were completed through December 2010 as a result of the NFMC program. Applying an estimated $70,600 social cost per foreclosure, we find that the NFMC program resulted in about $920 million is reduced deadweight losses. The first two rounds of NFMC program funding provided Grantees with $307.5 million. Based on our analysis, the overall benefit from the number of foreclosures avoided is 3.0 times the total amount of funding in rounds 1 and 2. However, NFMC funding does not cover all costs associated with counseling. According to our survey of Grantees and Subgrantees, it costs anywhere from $200 to $500 to provide counseling services to a typical client, depending on the counseling's level of service. Therefore, even assuming that all clients received Level 3 counseling, which costs $500 per client, counseling appears to pay for itself, as the average savings of $1,195 per client is 2.4 times as great as the cost to provide counseling services.

This NFMC program's benefit/cost ratio is higher when considering NFMC as a loss mitigation strategy. We estimate that lenders would realize an average loss of $112,500 when selling NFMC clients' homes acquired through a foreclosure. In total, the NFMC program helped lenders avoid realizing $1,460,000,000 in losses, which is 4.75 times greater than NFMC financing for rounds 1 and 2 and roughly 3.8 times larger than the estimated counseling cost of $500 per client. Therefore, foreclosure prevention counseling may provide even larger benefits to lenders than to society as a whole, thereby creating an incentive for lenders to support future counseling efforts.

FINDINGS AND LESSONS FROM THE NFMC PROGRAM

This evaluation looked comprehensively at the NFMC program and its effects on troubled homeowners and on the foreclosure crisis more broadly. We have identified three main areas in which this evaluation has illuminated key contributions of the NFMC program:

- Building the national capacity for foreclosure mitigation counseling
- Improving outcomes for troubled homeowners and reducing the overall number of completed foreclosures
- Identifying challenges and best practices for foreclosure counselors

Findings and lessons from each of these areas are summarized below.

Building National Capacity for Foreclosure Mitigation Counseling

The NFMC program was designed to increase the capacity of housing counseling organizations to provide foreclosure prevention counseling services in response to higher foreclosure rates. It should be remembered that, before the national housing crisis, foreclosure counseling composed a relatively small share of the services provided by housing counseling organizations, which were more typically focused on counseling for first-time homebuyers or homeowners seeking reverse mortgages. The rapid rise in foreclosures and mortgage delinquencies necessitated a shift in priorities for counseling organizations and required them to ramp up rapidly their capacity and capability to provide a larger volume of foreclosure mitigation counseling.

The NFMC program helped increase the nation's capacity to assist troubled homeowners in several ways. First, and perhaps most important, by providing more funds to counseling organizations, the program increased national capacity to provide foreclosure counseling services. As detailed below, the additional funding provided by the NFMC program, which included both counseling and program support dollars, allowed Grantee and Subgrantee organizations to expand their coverage areas, hire more counselors, access training opportunities, and invest in infrastructure and systems to improve performance.

Based on the responses from two web-based surveys of Round 1 and Round 2 Grantees and Subgrantees, the NFMC program allowed funding recipients to serve more clients and provide services in larger geographic areas. Round 1 NFMC program Grantees and Subgrantees reported that the median number of clients served in 2008 was 233, nearly three times the median number of clients respondents served in 2007. Because some organizations provided services to a relatively large number of clients, the mean number of clients served by respondents in 2008 (853) was about twice as great as the mean number of clients served by respondents in 2007. Some of this increase in volume resulted from respondents increasing their coverage area: 51 percent of respondents indicated that they expanded their coverage areas with program funds.

The large growth in clients served by respondents in 2008, compared to 2007, was accomplished by a small increase in the number of counselors added in 2008, suggesting that counseling organizations improved their efficiency to serve clients in the face of growing demand for foreclosure assistance. The median counseling organization employed one full-time foreclosure prevention counselor in 2007 and, by the end of 2008, had two such counselors. Although this is a 100 percent increase, it still means that at least half of the respondents had no more than two full-time foreclosure counselors at the end of 2008. Organizations may provide foreclosure prevention counseling through staff who provide other services, so more than two people may actually be providing foreclosure prevention counseling, but they do not spend 100 percent of their time on such services. Although respondents typically did not add many counselors, 66 percent of respondents indicated that they provided a wider array of foreclosure counseling services with their NFMC program funds that what they could offer before the program.

The responses from the web survey of Round 2 NFMC Grantees and Subgrantees were consistent with findings from Round 1. The median number of clients served by organizations that received Round 1 funds increased by 76 percent, from 203 in 2008 to 359 in 2009. Respondents who did not receive Round 1 funds had an even larger increase of 116 percent, from a median of 74 clients served in 2008 to 157 in 2009. The expanded volume of clients served was achieved with relatively small increases in the number of full-time equivalent (FTE) counselors. The median increase for Round 1 recipients was 25 percent (from 2.0 to 2.5 FTEs), while respondents who did not receive funding in Round 1 reported an increase in the median number of counseling FTEs from 1.0 to 2.0.

As with Round 1 respondents, some of the increase in volume resulted from respondents increasing their coverage area: 46 percent of respondents indicated that they expanded their coverage areas with program funds. It is interesting to note that the same share of respondents who received funding in Round 1 increased their coverage area as respondents who did not receive Round 1 funds. Therefore, respondents who received Round 1 funds were able to expand their services to an even larger area than they served in Round 1. The same was true for the types of services offered by respondents. Whether they received funding in Round 1 or not, about two-thirds of respondents indicated that they were able to use Round 2 funding to add services for their clients.

The NFMC program also helped to build the national capacity of foreclosure mitigation counseling in other ways. Survey and case study respondents were asked to indicate the most important ways they expanded their organizational capacity to handle increased client flow. The most frequently cited method was to send existing staff to training to learn to handle foreclosure work. Experience as counselors was also highly valued but sometimes in short supply because of the demands for expansion of the counseling industry. This redoubled the importance of training.

NeighborWorks® America housing counselor trainings and housing counselor certifications were well regarded by our survey and case study respondents. Training was important in helping counselors experienced in pre-purchase work to transition to foreclosure prevention counseling. Because many new programs for foreclosure prevention and mitigation have been rapidly introduced and frequently modified (most notably the Home Affordable Modification Program), training in the program specifics—for both public and private loan modifications and other solutions—has been important and eagerly pursued by organization directors and counselors at successful agencies.

In the course of the NFMC program, NW America also established a members' web site and message board that has allowed counselors to share questions, best practices, and other information across a national network. Survey respondents indicated that these media were helpful, with 44 percent saying that they were either useful or very useful. In addition, NW America held monthly WebEx sessions with NFMC Grantees and Subgrantees and periodic calls regarding HAMP guidelines. A majority of respondents indicated that both these sessions were either useful or very useful.

Improving Outcomes for Troubled Homeowners

While increasing the availability of foreclosure mitigation counseling services was an important NFMC goal, the ultimate measure of the success of the program was whether such assistance actually helped troubled homeowners achieve better outcomes, such as avoiding foreclosure sale or obtaining mortgage modifications that allowed them to remain in their homes. Determining whether the program helped homeowners attain positive outcomes, therefore, was the main focus of the NFMC evaluation.

There was no reason, *a priori,* to assume that foreclosure mitigation counseling services would be able to help homeowners. For example, clients' situations might be too severe for counseling to make any difference, especially if homeowners do not seek counseling assistance until late in the foreclosure process. Or, perhaps only the most seriously troubled homeowners would decide to get help—homeowners who would have little hope of getting a positive outcome despite counselors' best efforts. Alternatively, perhaps the loan modifications or other remedies being offered by mortgage servicers to troubled homeowners would be prove to be insufficient to provide any real possibility of sustainable solutions. Or maybe the introduction of HAMP in the second year of NFMC would obviate the need for counseling, since everyone who was eligible would get a standard HAMP loan modification.

Despite these potentially overwhelming obstacles, analysis of the NFMC program's activities and the subsequent performance of counseled and non-counseled mortgages found consistent, compelling, and robust evidence that the program has provided substantial benefits to homeowners facing foreclosure. Counseling reduced loss of homes to owners in a range of stages of default, producing increases in multiple positive outcomes rather than the completion of foreclosures. In almost all cases, counseling has remained effective in obtaining positive outcomes, even after HAMP was introduced in April 2009.These findings have been described in a series of modeling reports, culminating in the analysis presented earlier in this report. The most important conclusions are summarized here.

The NFMC program has helped homeowners get more affordable loan modifications.

NFMC client loans modified in 2008 and 2009 had resulting monthly payments that were $176 less, on average, than the non-counseled loans that received modifications. This corresponds to an average payment that was 7.8 percent less than would have been the case without counseling. The ability of counseling to obtain lower monthly payments for clients was the same both before and after the start of HAMP, indicating that counseling retained its positive benefits even with the existence of HAMP loan modification guidelines.

The NFMC program has helped homeowners cure serious delinquencies and foreclosures and subsequently remain current on their loans.

NFMC-counseled homeowners were more than two-thirds more likely to remain current on their mortgages after curing a serious delinquency or foreclosure than were those without counseling.. Counseling lowered redefault rates by two thirds (67 percent) over nine months for loans cured with a loan modification before the start of HAMP, and by 70 percent over nine months for modification cures obtained after HAMP. The combination of the two federal interventions (NFMC counseling and HAMP implementation) lowered redefault rates for borrowers curing loans through modifications from 66 to 11 percent (an impressive 83 percent reduction) over the course of nine months for a typical counseled loan.

Only a small part of the reduction in redefaults was attributable to counseling's effect on the size of monthly payment reductions from loan modifications. The great bulk of the sustainability benefit resulted from other impacts of counseling, such as helping borrowers improve their financial management skills, assisting them in managing relationships with servicers and investors, and providing other types of support. Nonetheless, although very few modifications included this feature, the relative odds of redefault were reduced by an additional 20 percent when the loan modification curing a serious delinquency or foreclosure included principal reduction.

For cures obtained *without* loan modifications, counseling also had a positive impact on sustainability. Before HAMP, counseling lowered the redefault rate from 71 to 36 percent, or a reduction of 49 percent, nine months after the cure of a serious delinquency or foreclosure without a loan modification. Once HAMP began, the effect of counseling on redefault was smaller but still substantial. Counseling lowered recidivism for post-HAMP non-modification cures by nearly 32 percent after nine months. As with modification cures, the combined impacts of NFMC counseling and the presence of HAMP yielded a substantial reduction in redefaults of non-modification cures, from 71 to 26 percent over nine months.

In addition to increasing the sustainability of cures, NFMC counseling improved client outcomes by increasing the likelihood that a borrow would bring a loan in serious delinquency or foreclosure back to current status. NFMC counseling came close to doubling the odds of modification cures compared with those for non-counseled borrowers. For those entering counseling before HAMP, the relative odds of obtaining a modification cure from a serious delinquency or foreclosure increased by 89 percent, compared to the odds without counseling assistance; after HAMP, the odds increased by 97 percent.

Translating these relative odds to cumulative percentages of modification cures, after 12 months (the average observation period for loans after they became troubled), 8 percent of homeowners before HAMP receiving counseling assistance had modification cures, compared with 5 percent among borrowers without counseling—a 60 percent increase with counseling. After HAMP, 17 percent of homeowners with counseling assistance cured their serious delinquencies or foreclosures after 12 months, compared with 9 percent without counseling—an 88 percent increase attributable to counseling.

The impacts of counseling on the rates of non-modification cures were very different from those for modification cures. Counseling assistance was associated with *fewer* non-modification cures, overall and at all levels of counseling. At 12 months after loans became seriously delinquent or entered foreclosure, cure rates were 9 percent without counseling compared with 7 percent with counseling pre-HAMP, and 13 percent without counseling to 9 percent with counseling thereafter. A likely interpretation of this finding is that some people who would have obtained non-modification cures without counseling were, with counseling, able to obtain cures with modifications instead. Indeed, the decrease in non-modification cures was more than offset by the increase in modification cures for counseled homeowners, resulting in a modest improvement in overall cures of serious delinquencies and foreclosures attributable to NFMC counseling.

A crucial outcome for borrowers is curing loans in serious delinquency or foreclosure combined with sustaining those cures (i.e., avoiding redefault). When the results of the sustainability and cure analyses, described above, are synthesized, they demonstrate that NFMC counseling nearly doubled the rate of curing and sustaining troubled loans. The total percentage of loans both cured and sustained with counseling was two-and-a-half times the percentage without counseling before HAMP, and nearly two-thirds higher than the percentage without counseling after HAMP. Counseling in both periods showed strong effects in helping people become current on their loans and stay that way. NFMC counseling and the HAMP environment together raised the rate of sustained cures by a factor of five.

The NFMC program significantly reduced foreclosures completed among homeowners, which has in turn yielded substantially social savings well in excess of the program's costs.

One of the most significant impacts of the NFMC program on the national foreclosure crisis is in increasing the number of foreclosures ultimately avoided. Between January 2008 and December 2010, 10.3 percent of round 1 and 2 NFMC clients had a foreclosure completion.[62] Without counseling, this percentage would have been 1.15 times as great. Extrapolating the modeling results from the estimation sample to all clients who received counseling in rounds 1 and 2, the NFMC program resulted in 13,000 fewer foreclosure completions by the end of 2010. In other words, the NFMC program prevented nearly one in seven foreclosures that would have been completed without counseling. These results were driven by NFMC performance after HAMP, which reduced the total number of foreclosure completions by 36 percent. Before HAMP, there was no statistically measurable difference in foreclosure completion rates between counseled and non-counseled borrowers.

Since foreclosure sales create costs for homeowners, lenders, local governments, and society at large, avoiding foreclosures generates social cost savings. Each foreclosure prevented by the NFMC program was estimated to have saved an average of $70,600 in avoided costs. These savings included $10,000 in moving costs, legal fees, and administrative charges for homeowners; $40,500 in deadweight lender loss to society, which represents 36 percent of the total lender loss; $6,500 in local government administrative and legal costs; and $13,900 in reduced neighboring property values.[63]

Assuming the 13,000 loans that avoided foreclosure through December 2010 because of counseling do not complete foreclosure at some point in the future, the NFMC program has helped save local governments, lenders, and homeowners *$920 million*, which is about $1,200 per client served by the NFMC program in 2008 and 2009. These savings translated to 3.0 times the total round 1 and 2 NFMC funding provided to support counseling services to these homeowners. When the full costs of providing counseling services to these clients, including funding from other sources, is accounted for, the savings represented a total counseling benefit-to-cost ratio of 2.4,

[62] Foreclosure completion includes foreclosure sale, short sale, and other involuntary losses of a home through foreclosure-related actions.

[63] See pages 98–101 of the main report for further details on the derivation of these cost figures.

Challenges and Best Practices

As this report is being written, millions of homeowners in the United States are still facing the possibility of foreclosure and the loss of their homes. Counseling organizations across the country are still working with many of these homeowners to allow them to avoid foreclosure and, hopefully, keep their homes. Through the course of the NFMC program evaluation, we have gathered extensive information from counseling agencies, through web surveys and interviews, on the challenges of obtaining good outcomes for their clients. We have also learned about some of the strategies and best practices that some of the more successful counseling organizations have employed.

When asked to identify the major challenges to achieving successful outcomes for clients, Grantee and Subgrantee representatives said that two issues were most problematic: (1) servicers were not sufficiently responsive and (2) clients, when entering counseling, were typically facing financial difficulties usually resulting from a loss in income. The organizations providing counseling services with NFMC funding developed a number of strategies to address the two major challenges, which are discussed below. In addition, counseling agencies stressed the importance of working with clients so they are empowered and, after meeting with their counselor, ready to take the required next steps with the lender. The following discussion details the strategies used to overcome the two main issues and to interact with clients so good outcomes are maximized.

Increasing Servicer Responsiveness

The inability to obtain good servicer responses to resolve troubled loans was the challenge or obstacle most frequently cited by counselors as impediments to obtaining successful outcomes for clients (although by only a narrow margin over borrowers' loss of income). Staff most frequently mentioned three challenges as severe: slow response or lack of response by servicers to applications for loan modifications, servicers losing documents submitted, and servicers switching clients' cases from one staff person to another. Other severe challenges concerned the decision-making standards and processes used by servicers: clients being turned down for HAMP modifications, even when they met payments during their temporary modifications; servicers' unwillingness to offer adequate modification or forbearance opportunities to fit homeowner needs; and a lack of clear and transparent standards by which servicers determine what, if any, workout solution was offered.

According to our case study interviews, successful counseling agencies responded to challenges in working with servicers in five ways, which we have cited as best practices for foreclosure mitigation counseling. These are summarized briefly here and discussed more fully in our report on the case study findings.

- *Reducing the chaos and delay from lost documents.* Difficulties transmitting the necessary documents for loan modifications and other solutions, confirming their receipt, avoiding their loss at the servicer end, and identifying missing documents so they can be re-submitted have been a major obstacle to effective foreclosure prevention. In nearly every case, well-performing counseling agencies have invested substantially in addressing this issue, including adopting HOPE LoanPort™ or their own electronic systems for tracking documents and negotiation.

- *Developing contacts and relationships with servicers and learning whom to go to for cooperation, escalation, and quick response.* Successful counseling organizations consider building contacts and relationships with servicers crucial. Organizations need to know the right people to call for cooperative problem-solving, finding non-foreclosure solutions, and moving stuck cases forward.
- *Knowing how servicers are likely to assess a proposed modification, forbearance, or other proposal.* Assessing what servicers will approve and creating proposals that work for the client and the servicer are important counselor goals. Some counselors focus on getting there with their initial proposal; others anticipate frequent negotiation. In both cases, a key ingredient is a counselor who understands how underwriting works so he or she can provide realistic options that the servicer will entertain.
- *Following up persistently.* Counselor persistence is central to many aspects of preventing foreclosure, including submitting applications and proposals to servicers, monitoring progress, and pursuing solutions that work for their clients. But persistence also includes negotiating solutions creatively. Successful counselors never take "no" for an answer, if analysis suggests that preventing or mitigating a foreclosure is at all feasible.
- *Structuring single-servicer events, live contact between servicers and clients, and live contact between servicers and counselors.* Direct in-person contact between servicers and counselors and homeowners can be valuable, if structured properly. The key is to put together the necessary pieces for actual loan modifications and other solutions to be reached *on site, during the event*.

Dealing with Major Income Reductions

Counselors indicated that most clients seek foreclosure prevention services because of a drop in income, often from a job loss. Serving these clients is especially challenging because servicers are more likely to approve a loan modification for clients who can document that their income reduction is temporary. In fact, one counselor said that he/she doesn't even contact servicers for clients who are unemployed because of the low probability of getting any modification approved for clients with no income. Nonetheless, counselors use several strategies when working with clients with an income reduction.

- *Conducting a detailed crisis budgeting analysis.* The first step when working with clients who have experienced an income reduction is to develop a crisis budget. One benefit of developing a crisis budget is that it acts as an opening to credit counseling by prioritizing expenses. By putting expenses and income down on paper, clients can easily see how they are spending their money, which they can continue to monitor even after their income increases.
- *Pursuing forbearances.* Getting loan modifications approved for clients with no income is problematic. If a job or income loss is temporary, counselors can pursue forbearance agreements with servicers. In particular, a forbearance plan can work well for people who expect to be reemployed, but such an approach is not appropriate for clients on fixed incomes.

Working Successfully with Clients

Counselors can only be as effective as their clients. Given the demand for foreclosure prevention services, effective organizations get clients proactive and engaged in the process. In addition, successful organizations provide realistic evaluations to their clients regarding the chances of obtaining loan modifications and other retention solutions. Two areas that representatives indicated were most important when working with clients are that (1) clients bring all required information to their initial one-on-one counseling session and (2) clients take ownership of the foreclosure counseling process.

- *Ensuring that clients bring all required information to the initial one-on-one counseling session.* Counselors stressed that servicers will not make any decision on a client's proposed loss mitigation solution, which often include a request for a loan modification, directly. Rather, servicers often require authorization forms from lenders, budgets, and hardship letters, and these requirements can vary by servicer. Agencies have instituted strategies (checklists, pre-counseling orientation meetings) to ensure that clients bring the required documents to their first counseling session so the counselor can contact a client's servicer during that session.
- *Empowering clients so they successfully manage the foreclosure prevention process.* Agencies do not have the resources to manage all aspects of a client's case. Therefore, counselors said that it is critical to work with a client who knows about getting loan modifications or other outcomes, has a realistic understanding of the options available given his or her circumstances, and will provide loan servicers with the documents and follow-up needed to reach a decision. Many agencies, as a first step, provide details about the foreclosure process during an initial group counseling session. The group sessions help clients start thinking

about a preferred solution, which may not include retaining ownership of their home, and increase the effectiveness of subsequent one-on-one counseling.

Conclusion

The National Foreclosure Mitigation Counseling program started in 2008 to help homeowners facing foreclosure. To measure how well the program met this objective, the Urban Institute conducted a three-year evaluation of the program. Through this evaluation, we have interviewed mortgage industry and program participants, reviewed program reports and documents, surveyed counseling organizations, and conducted an in-depth statistical analysis of outcomes for mortgages of counseled homeowners compared with outcomes for homeowners without counseling assistance.

The NFMC program has been an important and successful tool in addressing the record number of troubled homeowners who have faced, and continue to face, loss of their homes because of foreclosure. While counseling cannot solve to the foreclosure crisis, it nonetheless has helped homeowners achieve better outcomes, which in turn has benefited the country by reducing the numbers of nonperforming and failed mortgages, avoiding social costs associated with foreclosures, and allowing more people to retain their homes.

As the housing crisis continues to play out over the coming months and years, we hope that the information provided through this evaluation will help guide policymakers and practitioners toward solutions that will provide much-needed help to the nation’s struggling homeowners.

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APPENDICES

Appendices are provided as a separate documents to this report.

National Foreclosure Mitigation Counseling Program Evaluation

Final Report
Rounds 1 and 2
Appendices A – G

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APPENDIX A – PROCESS STUDY REPORT

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II. FINAL PROCESS EVALUATION

One of the stated objectives of the National Foreclosure Mitigation Counseling Program (NFMC program) evaluation is to determine whether the NFMC program was implemented and is being administered in a fair, objective and transparent manner by NeighborWorks® America (NW America). In a previous report we analyzed the scores that reviewers gave to each of the 143 applications submitted to NW America for funding.[1] Overall, our analysis of these scores indicated that application reviewers adhered to an objective method to evaluate applications and that NW America used a fair, objective and systematic methodology to generate award amounts.

The purpose of this analysis is to detail the processes that NW America used to evaluate applications, determine awards and monitor Grantee performance. The information presented below is based on interviews conducted with application reviewers and application review team leaders; NW America staff who developed the scoring rubric used by reviewers to evaluate applications; NW America officers who approved grant award amounts and members of an advisory board established by NW America for the NFMC program. These interviews were semi-structured, conducted with discussion guides reviewed and approved by NW America evaluation staff.

In addition, to determine the extent to which NW America is administering the NFMC program in a transparent manner, we conducted interviews with NW America staff that helped develop client-level and quarterly report databases and procedures to track funding in the organization's finance system. As part of NW America's quality control process, it engaged contractors who examined whether or not Grantees are complying with Program requirements and the counseling services provided by Grantees to homeowners are consistent with the national industry standards. We interviewed representatives of both contractors to collect information about their activities, which are a critical component of NW America's Program administration strategy.

Summary of Findings

Based on the information provided by key informants interviewed for this study and our analysis of scoring data as discussed in our earlier report, NW America used an

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[1] Mayer, Neil, Peter A. Tatian, Kenneth Temkin, Elizabeth Guernsey and Leah Hendey. 2008. *National Foreclosure Mitigation Counseling Program Evaluation, Interim Report #1*. Washington, DC: The Urban Institute. Report.

objective system to review applications and implemented a robust process to monitor Grantee performance that includes collecting a wide-range of quantitative and qualitative data. As detailed in this report, reviewers scored applications only after they received extensive training from NW America staff about a scoring rubric that provided an objective set of criteria for assessing each application. In addition, the process used by NW America to determine award amounts followed a standard algorithm that was applied to each applicant. Finally, NW America is collecting quantitative and qualitative information from Grantees and through its compliance and quality control contractors to ensure that the awards are being spent by Grantees on appropriate activities and that Grantees adhere to the grant agreements executed with NW America.

The remainder of this report is organized as follows. The next section describes the process that NW America used to review applications and select awardees, including how NW America (i) selected and trained its application reviewers, (ii) developed the scoring rubric that reviewers used to evaluate applications and (iii) the process that reviewers used to evaluate applications. In Section III we describe the process that NW America used to determine a Grantee's award amount and, in Section IV, discuss the procedures that NW America use to administer the NFMC program, with a particular focus on its quality control and compliance activities. We provide a summary and our conclusions in Section V.

Application Review Process

NW America had only 60 days from the time that the NFMC program was enacted in late December 2007 to make $50 million worth of awards.[2] Organizations submitted their applications by February 8, 2008; NW America had to review these applications and make award decisions before the end of February in order to meet the legislative deadline. Before reviewing applications, NW America staff developed a scoring methodology (called the "scoring rubric") to apply when making such evaluations and, at the same time, select people who had expertise about foreclosure mitigation counseling activities to evaluate applications The following section describes these two processes.

Scoring Rubric

NW America developed a scoring rubric that reviewers used to evaluate each application. The scoring rubric contained six types of factors: applicant certifications; capacity of the applicant and staff capacity to measure results; whether the applicant proposes to serve areas of greatest need; scope of proposed counseling services, whether an applicant has matching funds and an "Overall" evaluation of the applicant's

[2] As discussed later, NW America exceeded this requirement, awarding $130.4 million within 60 days.

ability to implement its proposed counseling activities. Most of the factors reflect requirements outlined in the NFMC program's legislation. For example, the legislation states that the funding is to be used to support mortgage foreclosure counseling in areas with high rates of default, foreclosure and a prevalence of subprime mortgages. Therefore, NW America developed a factor—areas of greatest need— that reflects this legislative requirement.

In addition to providing services in areas of greatest need, the legislation requires that Grantees: have "…demonstrated experience with financial institutions as well as borrowers facing default, delinquency and foreclosure as well as documented counseling capacity, outreach capacity, past successful performance and positive outcomes with documented counseling plans (including post mortgage foreclosure mitigation counseling), loan workout agreements and loan modification agreements."

NW America had to establish a threshold for determining if an applicant had "demonstrated experience," as required by the legislation. After discussions with NW America staff and the NFMC program's Advisory Board as well as input received from eligible applicants during the eligible applicant briefing, NW America required that applicants had to meet one of three criteria to be eligible for funding in the scoring rubric:

A. The organization provided foreclosure intervention counseling services which include documented action plans to at least 50 people during the past year or 20 people during the most recent quarter;
B. 75% or more of the organization's service area is in a rural area and the organization provided foreclosure intervention counseling services which include documented action plans to at least 25 people during the past year or 10 people during the most recent quarter; or
C. The organization provided foreclosure intervention counseling services which include documented action plans to at least 12 people during the past year and has at least one comprehensively trained and qualified foreclosure counselor.

The above requirements, according to NW America staff, created a reasonable standard for applicants to meet when demonstrating experience. Criteria C was added after consulting eligible applicants during an open eligible applicants briefing.

The Program's legislation requires that applicants provide some matching funds to their grant, which could be in the form of an in-kind contribution. This means that no organization can fully support its foreclosure prevention activities with Program funds. NW America determined that applicants had to match at least 20 percent of their award with funds from other sources. The 20 percent threshold was established to comply with the legislative requirement, but not be too burdensome to potential Grantees.

Under the NFMC program, Grantees are required to provide counseling services that, according to the legislation "…involve a reasonable analysis of the borrower's financial situation, an evaluation of the current value of the property that is subject to the mortgage, counseling regarding the assumption of the mortgage by another non-federal party, counseling regarding the possible purchase of the mortgage by a non-federal third party, counseling and advice of all likely restructuring and refinancing strategies or the approval of a work-out strategy by all interested parties..”

Providing such services is labor-intensive. Moreover, the purpose of the NFMC program is to increase the capacity of counseling agencies to provide foreclosure prevention services. As a result, applicants had to present a plan to staff-up adequately to meet the expected demand for foreclosure prevention services and, if necessary, partner with organizations that would supplement a Grantee’s in-house capacity. Because of the potential problems associated with increasing an organization’s capacity in a relatively short period of time, there are a number of factors in the scoring rubric that ask reviewers to score an applicant’s proposed level of counseling compared to its previous volume and an applicant’s plans for hiring more staff.

The legislation also requires that NW America submit bi-annual reports to the House and Senate Committees on Appropriations, the Senate Banking Committee and the Housing Financial Services Committee that identify successful strategies and methods for preserving homeownership and an analysis of the details and use of any post-mitigation counseling of assisted homebuyers.[3] Because of this reporting requirement, the scoring rubric included a factor that measures the extent to which an applicant has a system in place to collect data about counseled borrowers.

The scoring rubric was designed so that the factors used by reviewers to evaluate an application measured the requirements detailed in the NFMC program’s legislation. Overall, there is a very good correspondence between the factors in the scoring rubric and the legislation. The legislation, however, did not provide much guidance to NW America about the relative importance of each Program requirement. As discussed below, not every factor carries an equal weight in the scoring rubric. Moreover, two factors (whether an applicant has the required certifications and how much of an applicant’s proposed counseling volume was in areas of greatest need) are not scored on a sliding scale. The required certifications were part of the eligibility screen and the proposed counseling volume in areas of greatest need was assessed after the fact to determine whether the overall program had at least 50 percent allocated toward areas of greatest need.

When developing each factor’s weights, NW America staff said that they determined, through consultations with Advisory Board members and other stakeholders the most important elements of the legislation. This process had to be completed quickly, given the short amount of time allowed for to make awards. Based on these

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[3] NW America is providing Congress with more frequent updates than the bi-annual reports required by the Program’s legislation.

conversations, NW America developed two scoring rubrics: one for NeighborWorks Organizations (NWOs) and another for HUD-approved Housing Counseling Intermediaries and Housing Finance Agencies (HCI/HFAs) that included both the factors that operationalized the NFMC program requirements included in the legislation and the point value for each of these factors. The objective was to have each factor weighted by its importance so that applicants would receive higher scores if they demonstrated a high level of capability for the most important aspects of running a successful foreclosure counseling program.

All applicants (whether a NWO or a HCI/HFA) received numerical scores for three factors: their capacity; the scope of proposed counseling services and whether they had an electronic client management system that could be used to track client-level counseling outcomes. In addition to the three scored factors, reviewers determined whether an applicant proposed (1) to provide services in areas of greatest need[4] and (2) to supplement a grant with matching funds. These two factors did not have point values; rather, reviewers answered yes/no to the questions within the factors.

Reviewers also determined an "Overall" score based on three questions: [redacted]

(Redacted until all NFMC Program application review processes – for all rounds of funding – are complete.)

NWO applicants could earn a total score of 39 points. Factor 1 (applicant capacity) had a maximum of 7 points, Factor 4 (scope of proposed counseling services) was worth 15 points and Factor 6 (presence of an electronic counseling tracking system) was worth 2 points. An NWO applicant, then, could earn a maximum of 24 points from the three scored factors. In addition, an NWO applicant could earn another 15 points from the Overall score (Table 2.1).

Table 2.1: Factors used to score applications from NWOs *(Redacted until all NFMC Program application review processes – for all rounds of funding – are complete.)*

[redacted]

[4] NW America identified MSAs and rural areas as those with greatest need using four criteria: 1) number of subprime delinquent loans (30-90 days); 2) percent of subprime loans delinquent (30-90 days); 3) percent of subprime loans in foreclosure process or REO and 4) percent of all loans that are subprime.

[redacted] *(Redacted until all NFMC Program application review processes – for all rounds of funding – are complete.)*

[redacted]

HCI/HFA applicants could earn a maximum of 45 points, compared to 39 points for NWO applicants. This difference results from each scored factor (not including the Overall question) being worth two more potential points for HCI/HFA applicants as compared to NWO applicants. The reason for the higher maximum points available for HCI/HFA applicants is that such organizations oftentimes must use sub-Grantees and subcontractors to deliver counseling services. Therefore, the scored factors include questions regarding HCI/HFAs' ability to use sub-Grantees successfully to deliver high-quality counseling services. Despite greater maximum scores available for the scored factors, HCI/HFA application reviewers, as with NWO applicant reviewers, could award 15 Overall points (Table 2.2).

[redacted]

Table 2.2: Factors used to score applications from HCI/HFA organizations *(Redacted until all NFMC Program application review processes – for all rounds of funding – are complete.)*

This determination is based on the reviewer's read of the entire application, including the applicant's previous counseling volume and the proposed plan to ramp-up capacity to meet the proposed goals.

By including the Overall factor, the scoring rubric allows reviewers to exercise their judgment about the ability of an applicant to be a successful Grantee, which is to provide the proposed volume of services in the areas the applicant targets for foreclosure prevention counseling services. Combined with the other scored factors, the scoring rubric is a reasonable combination of factors that allow for relatively less flexibility from a reviewer and the Overall factor, which does offer a reviewer more discretion in making a score.

(intentional space as redactions affected pagination)

Selection and Training of Application Reviewers

According to NW America staff interviewed, the organization anticipated that the NFMC program would be enacted, and started making plans in November to establish a process to review applications. In particular, NW America staff knew that it could not review all applications with only internal staff. As a result, NW America staff members asked other staff at the organization and its board members to identify foreclosure prevention counseling experts and also people with general experience in reviewing grant applications.

In addition, NW America recruited external reviewers from the U.S. Department of Housing and Urban Development, the U.S. Treasury Department's Community Development Financial Institutions Fund, the Federal Deposit Insurance Corporation, the Federal Reserve, Freddie Mac, and the U.S. Department of Heath and Human Services. NW America recruited its own staff as reviewers and review team leaders. NW America asked department heads to recommend staff who had participated in reviews of applications to other NW America programs.

Reviewers could not have a conflict of interest, and so potential reviewers were asked if they had any type of financial interest in the outcome of Program award decisions. Moreover, reviewers did not evaluate an application from an organization for which they or any immediate family members had an affiliation, defined as serving (1) on an organization's board of directors, (2) as a paid consultant or (3) as a staff member or having been a staff member within the past three years. In addition, NW America staff could not evaluate applications from organizations that are located in their district or from organizations that received technical assistance from the NW America staff member within the past three years.

To ensure that applications were scored using the same objective criteria, all reviewers received training before the second week in February 2008, when they started evaluating applications. NW America provided training through a two- to three-hour in-person/WebEx session during which NW America staff described the NFMC program's legislation, the GrantWorks system that reviewers used to input their scores and the scoring rubric that detailed each factor scored by reviewers and the types of information within an application that was to be used to score a particular factor. Representatives from two of NW America's Board agencies attended these trainings as observers. Before the WebEx seminar, reviewers received a manual that included hard copies of the legislation, scoring rubric and instructions for using GrantWorks.

Reviewers (both NW America staff and external reviewers) were assigned to four-person teams, which consisted of three reviewers and one team leader. All review team leaders received their own training. The purposes of the team leader training, according to those who participated, were to review specific practices that would be used in the scoring. In particular, review team leaders received training about how to manage their group, the mechanics of scoring and how to enter data into GrantWorks, including entering summary comments.

How Reviewers Evaluated Round 1 Applications

Each member of a review team had to evaluate the applications assigned to the team over a three-day period. Typically, a reviewer scored between three and four applications per day. Based on our interviews, it appears that reviewers took different approaches when evaluating an application. Some reviewers scored the application as they went along, and so gave an applicant a score for a particular factor after reading the materials in the application that addressed the factor. For example, a reviewer may read the portion of an NWO application that addressed Factor 1: the applicant's capacity and relevant staff and score the application based on that section of the application. Other reviewers, however, read through the entire application first, and then awarded scores for each factor. Both approaches were acceptable to NW America.

All reviewers had access to GrantWorks, and so could see the scores that other reviewers in their team gave to a particular application. According to the reviewers, however, there was so little time to review applications that they did not look at the scores awarded by other reviewers on their team. As a result, reviewers initially scored applications independently, without knowing the scores that other team members awarded to an applicant. But, as discussed below, review team members discussed their scores among each other during a facilitated concurrence call that was held shortly after the individual reviewers completed their initial assessments.

According to team leaders and reviewers, reviewers would sometimes have questions about how to interpret a factor's meaning, or that the scoring rubric may have had some typographical errors. These questions were emailed to team leaders, who sent them to NW America staff. Team leaders would forward answers to reviewers once they received them. In general, reviewer questions were straightforward requests for clarification, and did not require any material changes to the scoring rubric.

Each reviewer entered his/her scores into GrantWorks. Team leaders were not required to score applications. Mostly team leaders reviewed applications so that they could be familiar with them when the reviewers discussed their scores during the concurrence call that was held after all reviewers finished scoring the applications. (One team leader interviewed said that his/her concurrence call was monitored by a staff member of an organization on NW America's board. Other team leaders did not remember any third-party monitoring their concurrence calls.) The team leader facilitated and led the concurrence call. The concurrence call provided each reviewer an opportunity to discuss his/her scores for each application. The team leader provided each reviewer with a summary spreadsheet of scores awarded by each reviewer and summary comments of each application.

Although each reviewer scored his/her applications independently from the other reviewer in the team, reviewers and team leaders said that there was relatively little variation in the scores awarded by reviewers. (This is consistent with our analyses of reviewer scores within teams that showed small variances across reviewers.) There were some cases in which a reviewer in a team awarded a score that was different from another reviewer. The team leader led, in a concurrence call, a discussion about the reasons for this difference. In some cases the difference resulted from a reviewer misreading an application, and the other reviewers would point the other reviewer to the narrative in the application that supported their score. In these cases the reviewer with the different score would change his/her score after re-reading the information in the application. After discussing all of the applications in the concurrence call, the team would often average the three reviewer scores and determine a final score for an applicant.

Team leaders could enter an applicant's score into GrantWorks, and the system would then generate a recommended award amount for counseling, Program-Related Support and Operational Oversight. The counseling awards are determined by multiplying the funded number of counseling units for each level by the reimbursement rate for each level ($150 for Level 1, $200 for Level 2 and $350 for Level 3). In addition, applicants could request up to 20 percent of their counseling request for Program-Related Support, which funds activities that are not reimbursed by the client-level counseling reimbursements. HCI/HFA applicants could request Operational Oversight funds, which covers day-to-day oversight and management of the sub-grantees as well as aggregation and reporting of data. An applicant could receive a maximum of 7 percent of the first $2.5 million of counseling funds requested and 5 percent of counseling funds requested beyond $2.5 million.

The algorithm that generated a recommended award amount based on application scores was developed by NW America staff. The staff analyzed the potential scores that could be earned by an applicant, and determined the extent to which an application that scored within a given range represented an organization that had the capacity to increase its counseling volume beyond its demonstrated experience.

[redacted]

[redacted]

[redacted] *(Redacted until all NFMC Program application review processes – for all rounds of funding – are complete.)*

Table 2.3: Recommended Counseling Funding Algorithm for HCI/HFAs *(Redacted until all NFMC Program application review processes – for all rounds of funding – are complete.)* Source: NW America

[redacted]

[redacted]

[redacted]

[redacted]

Table 2.4: Recommended Counseling Funding Algorithm for NWOs (*Redacted until all NFMC Program application review processes – for all rounds of funding – are complete.)*

[redacted]

Review teams knew that there was a relationship between an applicant's score and the recommended award amount, but did not know the actual algorithm described above. Some team leaders worked with the reviewers during the concurrence call to see the impact of changing an applicant's score on the recommended award amount. In some cases the initial score generated from the reviewers resulted in an award amount that the team believed was too low based upon the conversation and re-reading of the application during the concurrence calls, and would go back to their applications and change their scores so that the recommended award amount was closer to the requested award amount.

Of the 143 applications scored, 13 applications were not recommended to receive funding. According to reviewers interviewed, applicants had to demonstrate that they had the capacity to be a successful Grantee. As a result, Grantees that were not recommended for funding typically either did not provide a sufficiently detailed discussion of their plans to increase their counseling volume or the reviewers did not believe that the proposed plan was realistic, given the problems associated with ramping up counseling activity over a short time period.

Every applicant could receive a briefing from NW America about the reasons for its score. Thirty-two applicants (including all of the applicants that did not receive funding) requested and received such a briefing, during which NW America staff reviewed the factor scores with the applicant and the reasons that reviewers provided for their scores.

One applicant that did not receive funding attempted to protest NW America's decision with the U.S. General Accountability Office (GAO). GAO dismissed the protest, ruling that its jurisdiction did not encompass protests which concern the award of a grant. Representatives of the applicant contacted members of NW America's board. The applicant was informed that grant decisions were delegated to NW America staff and that there was no appeal process for grant decisions. The applicant also requested and was granted a debriefing session.

Summary of application review process

The scoring process implemented by NW America allowed the organization to assess applications in a systematic and objective manner. The scoring rubric developed by NW America and used by reviewers reflected required factors that Congress identified in the NFMC program's legislation. Reviewers were selected based on their knowledge of foreclosure counseling services and/or because they participated in previous grant application reviews. After receiving training, reviewers independently evaluated applications and easily came to a consensus about each application that they reviewed. In general, there was little variation in reviewer scores for each application, suggesting that the reviewers followed a common set of criteria when evaluating applications.

Award Allocation Process

Once finalized, a review team's score for a particular applicant was not further evaluated by any NW America staff. The total amount of recommended award amounts from the review teams (these recommended award amounts were largely based on the algorithm described earlier) was $206M, far in excess of the $130.4 million available for awards. Moreover, some applicants requested relatively large grants.

NW America placed both a cap and a floor on the award amounts. Recognizing the extreme demand for these funds, the need to provide access to foreclosure services across the country (particularly in areas of greatest need), and the desire to mitigate risks associated with concentrating funds with any one applicant, a $15 million cap was instituted. Three organizations received the maximum award amount, accounting for 34 percent of the total $130.4 million awarded. In addition, a floor of $10,000 was placed on grants to reflect the cost benefit of processing and monitoring the grant. NW America believed that any grant made below the minimum award amount would be too costly for the Grantee to administer, relative to the benefits generated by the grant. Four organizations received a $10,000 award, all of which are NWOs.

After establishing maximum and minimum award amounts, the total recommended funding still was greater than the $130.4 million available to award. NW America further cut grants based on an applicant's score relative to the highest total score by any applicant. Therefore, assuming that the highest score received by an NWO applicant was 38 out of 39 points, and another applicant received 92 percent of that score, then the Grantee's award amount was reduced to 92 percent of the recommended award amount. However, even with these reductions, the total awards were greater than the available funding and so NW America reduced all awards (except for Grantees receiving the maximum and minimum grant) by 12 percent. This reduction was made across the board, and did not reflect any Grantee's application score. NW America, after finalizing the award amounts, announced the grants on February 24, 2008, within the required 60-day deadline in the NFMC program's legislation.

Summary of award allocation process

The total amount of funds requested by applicants exceeded the $130.4 million NW America had available to award in the first funding round and so the organization developed a method to reduce award amounts. A floor and a cap on award amounts was established. In addition, NW America used a combination of across-the-board cuts to all Grantees and scaling award amounts based on an applicant's total score provided NW America to further reduce award amounts. The combination of capping awards and using objective criteria to reduce award amounts below the allowable maximum was an objective and systematic process.

NFMC Program Administration

In this section we discuss NW America's process to administer the NFMC program. We begin by detailing NW America's method to collect data that it uses in reports to Congress and its process for paying Grantees their grant draw requests. We next discuss NW America's efforts to ensure that Grantees comply with their grant agreements and conclude with a description of NW America's efforts to determine the quality of the counseling services provided by Grantees to their clients.

Data Collection and Reporting

The legislation authorizing the NFMC program requires that NW America provide bi-annual reports to the House and Senate Committees on Appropriations, the Senate Banking Committee and the House Financial Services Committee. These reports are to include the following:

- Successful strategies and methods for preserving homeownership and the long-term affordability of at-risk mortgages;
- Recommended efforts that can assist in the success of the NFMC program;
- An analysis of policy and procedures that failed to result in successful mortgage foreclosure mitigation; and
- An analysis of details and use of any post-mitigation counseling of assisted borrower designed to ensure the long-term affordability of mortgages.

To ensure that NW America receives information that is needed to complete these reports (and other requests for information from Congress and other stakeholders), NW America established a data reporting system from its Grantees that collects information both for individual clients and, at a more aggregate level, for each Grantee. This information allows NW America to meet its reporting requirements, and is also being used by researchers in a more extensive study of the NFMC program's impact on preventing foreclosures.

All Grantees (including Sub-grantees) are required to report information about the clients that they serve. These "client-level" data are uploaded by Grantees (and includes data reported to them by their Sub-grantees) into an electronic database that is maintained by NW America. Many Grantees are using standard software packages, such as CounselorMax to track client-level data and report this information to NW America.

The client-level data includes 42 variables that contain information about the client, his/her loan, and the types of counseling services received and the outcome of the counseling. To minimize reporting burdens to Grantees, NW America does not require that a Grantee report every data item: 28 (or two-thirds) variables are required while 8 are optional. Grantees are required to report 3 of the remaining 6 “partially” required variables (Table 2.5).

In addition to these client-level data, Grantees submit quarterly reports that include narrative discussions of challenges faced by Grantees to provide successful foreclosure prevention counseling and solutions that have been implemented to address these challenges. Grantees, once they receive all of their funding, will complete a final report that includes all of the information in the quarterly reports and answers to questions about a Grantee’s experience with the NFMC program, costs of providing counseling services and sources of funding.

The quarterly reports also include information about outcomes for homeowners who received counseling from Grantees, but whose outcomes are not reported at the client level. As a result, the outcomes in the quarterly report are at an aggregate level, and so cannot be used when analyzing how outcomes vary across client or loan characteristic. Moreover, Grantees must submit outcomes (either at the client-level or in aggregate form on a quarterly report) before they can receive reimbursement.

Table 2.5: Client-level data items collected by Grantees

Variable	Reporting requirement
Organization ID	Optional
Branch ID	Required
Client Identifier	Required
Counseling Level	Required
Counseling Intake Date	Required
Counseling Mode	Optional
Client's first name	Required
Client's last name	Required
Age	Partially required
Race	Required
Ethnicity	Required
Gender	Required
Head of household	Partially required

Household family income	Required
Household family income category	Partially required
House number	Required
Street	Required
City	Required
State	Required
Zip	Required
Total individual counseling hours required	Required
Total group counseling hours required	Required
Name of originating lender	Required
FDIC/NCUA number	Optional
Original loan number	Optional
Current servicer	Required
FDIC/NCUA number or current servicer name	Optional
Loan number assigned by current servicer	Partially required
Credit score	Partially required
Source of credit score	Partially required
Monthly PITI at intake	Required
First loan product type	Required
Interest-only loan	Required
Variable	Reporting requirement
Hybrid ARM	Required
Option ARM	Required
FHA or VA loan	Required
Privately held loan	Optional
Interest reset has occurred	Required
Primary reason for default	Required
Loan status at intake	Required
Counseling outcome	Optional
Counseling outcome date	Optional

Source: NW America

Some clients' cases cannot be resolved quickly, and so NW America did not want Grantees waiting for reimbursement before a final outcome for a particular case was known. Therefore, Grantees can report outcomes (and so receive reimbursement) without reporting a final disposition to the client's case. For example, Grantees can report that a client is still in counseling, and so there is no known outcome. This choice allows Grantees to submit for a reimbursement, but does not allow NW America to report on the ultimate outcome for the client. Nonetheless, the combination of the data reported at the client-level and in quarterly and final reports allow NW America to complete all of its reports required by the legislation and also to respond to *ad hoc* requests from stakeholders about the NFMC program's progress in meeting its objectives.

Grantee reimbursements

Grantees, after receiving notice of their award, executed grant agreements with NW America. These award agreements included the number of counseling units that was the basis of a Grantee's counseling award. NW America designed its reimbursement schedule so that Grantees did not have to finance activities in advance of providing counseling services. Once executed, Grantees received 35 percent of their counseling award, 35 percent of operational oversight and 70 percent of program-related support before providing any counseling services, which they could use to hire or train additional staff and other requirements to increase their capacity.

Grantees are eligible for a second draw equaling 30 percent of their counseling grant, 30 percent of operational oversight, and 15 percent of program-related support once they provide counseling services to 25 percent of their expected volume. This means that Grantees can receive 65 percent of their counseling award after providing services to one-quarter of their proposed clients. Grantees can receive a third draw for 30 percent of their counseling award, 30 percent of operational oversight, and 15 percent of program-related support once they provide services to another 30 percent of their proposed counseling volume. Therefore, Grantees can receive 95 percent of their counseling award once they provide services to only 60 percent of their total proposed counseling volume. The remaining 5 percent of a Grantee's counseling award and operational oversight is drawn down in two equal payments: one when they complete the remaining 40 percent of their volume and submit their final report and the last payment at the end of the award's performance period. The last payment provides an incentive for Grantees to continue their participation in the NFMC program's evaluation and other potential NW America information requests.

Before making any payments to Grantees after their first draw, NW America staff use client-level information reported by Grantees (discussed above) to determine if the Grantee, based on its counseling volume, is eligible for payment. Therefore, Grantees have to document that they have achieved the required counseling volume within the variances stipulated in their Grant Agreements by MSA and level of counseling before receiving a payment. And, as detailed below, NW America, through its compliance contractor examines the extent to which Grantees report accurate information, thereby creating a solid system that provides Grantees with reimbursements in advance of incurring expenses but, at the same time, ensuring controls that Grantees are adhering to their award agreements.

Compliance

At the outset of the program, NW America developed quality control procedures to provide reasonable assurance of each Grantee's ability to deliver results under the program. NW America hired Mayer Hoffman and McCann, LLC, (MHM) a national independent Certified Public Accounting firm to examine prior audits and financial documentation of all the Housing Counseling Intermediaries and the State Housing Finance applicants in the pre-award phase. Staff from the Leawood, Kansas office of MHM noted the most recent year the agency was audited, if the audit was conducted using generally accepted accounting standards in the U.S., if the audit was in accordance with Government Auditing Standards as issued by the Comptroller General, if the audit conformed with OMB Circular A-133, and noted any findings of concern.

Post-award, NW America engaged MHM to complete compliance audits that included both on-site and off-site reviews of a sample of Grantee reporting procedures and reviews of client files to ensure that they contained complete information about the services provided by the Grantee to the client. In addition, NW America engaged the BBH Group to complete on- and off-site quality control audits of a sample of Grantees' counseling services. Grantees were selected for both types of audits based on the extent to which they were considered to be "at-risk" by NW America staff based upon the following factors developed internally by the organization:

- size of the grant award;
- years of foreclosure counseling experience;
- findings from OMB Circular A-133, audit review, and litigation disclosure
- the proposed percentage increase in service over their existing level of service provision;
- if a NeighborWorks Organization, the agency's NW America organizational assessment rating;
- experience in HUD monitoring and compliance;
- the number of Sub-grantees, if a HUD Intermediary or State Housing Finance Agency.

Based upon the assessment of each organization, NW America identified 30 Grantees and MHM identified 50 Sub-grantees for site visits.

The document compliance review component was completed by MHM staff between September 2008 and January 2009. In addition to the 30 parent organizations and 50 Sub-grantee site visits, MHM conducted 99 remote (off-site) reviews for the remaining agencies. MHM issued a total of 179 reports from these on- and off-site reviews.

For all site visits, MHM noted when the last audit was performed and if any NFMC funds had been included within that audit. As this was very early in the program, only a few agencies had expended funds and completed an audit effective June 30, 2008. If there were NFMC funds, MHM staff checked for OMB Circular A-133 compliance.

Additionally, MHM reviewed the agency's liability insurance and its general procedures on items such as document security and retention and policies towards clients such as privacy and non-discrimination. Additionally, MHM reviewed copies of the files of six clients served by the agency, chosen by MHM from a list provided by NW America (which in turn came from the agencies in their periodic reports to NW America). MHM inspected each of these files for the presence of forms matching the level of service reported by the agency to NW America.

For those agencies identified by NW America for site visits based upon the risk assessment, MHM performed agreed-upon procedures pertaining to the grant. These included reviewing payroll and bank statements, the general ledger, and paper trails for subcontractors and sub-grantees. Typically, these site visits lasted a day and one-half, during which MHM would meet with the Executive Director, the director of counseling (if there was one), and financial staff. MHM asked all of the agencies for a listing of the counselors who provided services and the languages they could translate. From the listing, MHM randomly selected on counselor or staff member and asked them to speak the language identified.

Over the four months of these site visits, MHM staff decided not to change any part of the reviews in order to not prejudice any of the former or latter agencies. MHM provided the results of these reviews for each agency to NW America staff and then to the agencies. Agencies were asked to respond within 15 days to MHM. MHM staff then included the response in a final report submitted to NW America.

As part of its compliance analysis, NW America developed a customer satisfaction survey for MHM to administer to a sample of clients counseled by Grantees. (The survey instrument is presented in Appendix A.) On this survey, clients were asked to rate the service they received from the agencies in 19 areas, including the knowledge and experience of the counselor, if the counselor listened and understood the client, and what type of remedies were reviewed with the client.

MHM staff attempted to find foreclosure clients from lists supplied by counseling agencies through NW America. Out of a total of 1,288 surveys mailed to the clients, 92 were marked return to sender; 200 of the remaining 1,196 surveys that went to valid addresses were filled out by clients and returned to NW America. NW America is in the process of analyzing the data returned by clients, and will report the results within the next few months.

Quality Control

In addition to the file check conducted by MHM, NW America hired a contractor, the BBH Group, to conduct site visits to a sampling of the same agencies to determine whether or not the agencies conformed to foreclosure counseling standards developed by the Advisory Council for the National Industry Standards for Homeownership Education and Counseling. The standards, published in early 2008, were created with help from lending, institutional, housing and advocacy organizations, with the goal of ensuring consistency and competency in the field of foreclosure counseling. NeighborWorks Center for Homeownership Education and Counseling (NCHEC) provided staff to initiate and serve the effort. Grantees, as a condition of their grant, must adhere to these standards.

The industry foreclosure counseling standard encourages certification of counselors after minimum training is completed at approved training institutes, promotes continuing education, and establishes a code of ethics. The minimum criteria for delivery of service to a client, as defined by this industry standard, are as follows:

1. Perform intake by gathering baseline information from client including:
    a. Client's goals/intent
    b. Reason for delinquency or default
    c. Client's financial situation and possibility of workout
    d. Client's loan type
    e. Home's value/condition
    f. Credit report
    g. Original loan documents, if available
    h. Demographic information (contact information, household size, household income, etc.)
2. Assess client's mortgage, payment status and urgency in the delinquency and foreclosure process
3. Develop loss mitigation options
4. Communicate with the servicer
5. Submit loss mitigation package to servicer
6. Negotiate with junior lien holders and Homeowners Association
7. Create written action plan for foreclosure avoidance or client's preference
8. Provide follow up to client

9. Provide client with contact information for additional community services that might be available.

The BBH Group, led by Brenda Berry Harrison, engaged four other NW America-affiliated consultants with either foreclosure counseling or foreclosure training experience with NW America to perform the quality control audits. This review group visited 48 sites and audited 67 on-site counseling sessions. Depending upon the modes of counseling offered by the agency, the reviewer would audit telephone counseling, group counseling sessions, or one-on-one sessions. Additionally, they evaluated 91 off-site level 1, 2 and 3 client case files.

As a part of their site visits, Ms. Harrison or a team member examined the counselor's credentials and determined the experience level of the counselor. While auditing the counseling session, the reviewer would gauge the urgency of the case and the intake and triage process of the counselor. The team member listened for a counselor's "cultural competency," quality of his/her customer service, time management, and negotiation skills. The on-site evaluator also examined the action plan developed by the counselor and determined the completion of action items. The evaluator also reviewed any client satisfaction surveys administered by the Grantee to its clients. Using all of this information, Ms. Harrison and her team determined the overall quality of foreclosure counseling services and capacity to deliver effective services by the agency.

The results of the team's individual site visits will be included in a report to NW America along with an overall analysis of findings and recommendations that, if implemented, would improve the quality of services delivered by Grantees to their clients.

Summary of NW America's process to administer the NFMC program

NW America must balance competing interests as the NFMC program administrator. Grantees, in order to provide foreclosure prevention counseling services need to hire staff quickly, and do not want to spend too much time on reporting activities. Congress requires that NW America provide periodic reports about the NFMC program's achievements and NW America has a fiduciary responsibility to ensure that Grantees comply with Program requirements.

NW America's administrative policies and procedures successfully balance these competing interests. Grantees receive draws on their awards before they start their Program activities; this allows Grantees to staff-up with Program funds, rather than use other sources to finance operations while waiting for reimbursement from NW America. And, although NW America requires Grantees to report information about Program activities, some of the information is only reported quarterly and, at the client-level, only some information is required by NW America.

Finally, NW America has engaged two contractors who conduct both on- and off-site audits to ensure that Grantees are reporting accurate information and maintaining complete records of their counseling activities. Moreover, some of these audits include an evaluation of the quality of the services provided by Grantees. In addition, NW America's contractors surveyed clients about their satisfaction with the NFMC program, providing even more information about the quality of counseling services funded under the NFMC program.

Conclusions

Implementing the NFMC program represented a significant challenge to NW America. The legislation required that the organization award a significant amount of grants within a short (60-day) timeframe. To meet this timeframe NW America had to develop procedures to accept and review applications, make awards and monitor Grantee performance.

Based on information collected through interviews with people who played key roles in Program implementation and monitoring, it appears that NW America developed and implemented an objective and systematic process to review applications and make awards. Moreover, it established, implemented and is now executing a robust monitoring system that ensures Grantees provide quality counseling services and comply with the data collection and reporting the requirements set forth in the award agreements between NW America and each Grantee.

NW America's ability to implement the NFMC program in such a manner is largely due to the organization's use of the legislation to develop (i) the scoring rubric used by reviewers to evaluate applications and (ii) data collection and reporting procedures that provide NW America with the information it needs to complete required reports to Congress and other stakeholders and monitor Grantee performance.

The scoring rubric, which identified and quantified factors that are consistent with the NFMC program's legislation, allowed reviewers to evaluate applications in an objective and systematic manner. In general, reviewers (who received extensive training from NW America about the NFMC program itself and the scoring rubric) were in agreement about particular applicants even though they assessed applications independently from one another.

NW America also developed and implemented a systematic and objective algorithm to determine a Grantee's award that used an applicant's overall score as determined by the team of reviewers that evaluated the application. Such a process was necessary because the total amount requested by applicants was more than the $130.4 million NW America had available to distribute in the first funding round. This algorithm was applied to all Grantees who received funding, thereby creating a consistent method to reduce awards from their requested amount.

Finally, NW America requires that Grantees submit a combination of quantitative client-level and qualitative Grantee-level information about the types of people who are being served under the NFMC program, the challenges that Grantees face when providing these services and the strategies Grantees are using to overcome these challenges. NW America, through its compliance and quality control contractors is also making sure that the information provided by Grantees is accurate. This combination provides the organization with sufficient information to complete reports to manage the NFMC program, and identify potential issues before they go on too long to jeopardize the NFMC program's success.

APPENDIX B – FIRST RECONNAISSANCE REPORT

Note: Originally published as part of *National Foreclosure Mitigation Counseling Program Congressional Update, Activity through September 15, 2008*, report. Some material redacted by NeighborWorks® America.

IV. EARLY RECONNAISSANCE INTERVIEWS

An early evaluation task has been to interview a variety of expert observers and stakeholders about the issues involved in mortgage foreclosure mitigation counseling. The primary goal is to identify important factors affecting outcomes, which should then receive careful attention as we design and carry out the evaluation. We also want to provide to program administrators and policy makers part of an early picture of the challenges facing the foreclosure mitigation effort and the possible means to confront them successfully.

The interviews were deliberately not directed specifically to the NFMC program itself but instead intended to draw on the longer and broader experience of the interviewees in this field. The respondents were selected in nine categories, as follows.

- Lenders and lender associations
- Regulators
- National NFMCP grantees with local affiliates and subgrantee affiliates
- State housing finance agency grantees
- Academics/other researchers
- Consumer groups
- NeighborWorks® America staff
- Other counseling networks, agencies, and institutions which are not NFMCP grantees
- Other knowledgeable observers and stakeholders (neighborhood revitalization entities, consultants, secondary mortgage market actors, funding sources)

The final interview list included 28 individuals, 18 of whom had been interviewed by August 31st, the cut-off date used in order to complete this interim report. We will continue to seek interviews with the rest, many of which are already scheduled, for inclusion in a subsequent report.

We asked each expert ten questions, which are grouped and repeated, along with a summary of their answers, in the text below.

Sources of Foreclosure

Question: What are the primary sources of the foreclosures which borrowers coming into counseling are facing?

What do borrowers describe as the principal circumstances that have brought them to a threat of mortgage foreclosure and to seek counseling? Each interviewee provided multiple responses to this question. The three most strongly and frequently underlined answers were:

- Mortgages whose payments homeowners were unable to afford even at the time of initial borrowing and on the initial terms, often poorly underwritten by lenders and poorly understood by borrowers.
- Borrower losses of jobs and/or income, making loans whose payments could originally be met no longer manageable.
- Resets of adjustable rate mortgages (ARMs) at higher interest rates, with higher mortgage payments which were beyond borrowers' reach.

These circumstances appeared far more often for borrowers with subprime, rather than prime, mortgages. The delinquent mortgages were both for purchase and refinance.

As one respondent specifically noted, the current rate of defaults and delinquencies is far higher than experienced in periods of similar levels of unemployment and economic slowdown. Clearly other factors besides the primary traditional source of defaults, job/income loss, are operating. Loans households could never afford, and the resetting ARMs, clearly are each on their own important additions to the range of problems. But respondents also identified a strong joint effect of the three key sources of difficulty. Many borrowers took on debt that required payments very near to the maximum they could afford. As a result, relatively small changes in income (downward) or medical or other costs (upward) left homeowners unable to meet their payments. Even moderate levels of interest reset on ARMs had the same effect. Plus, lenders made loans to people with spottier earnings history, which may have led to a higher than usual frequency of income reductions.

Whether generated by lenders' lax underwriting and eagerness to extend loans and/or homeowner interest in or need to borrow—both buoyed by seemingly endlessly rising prices—these situations represented fragile and often not sustainable conditions. High initial loan-to-value ratios meant that declining house prices quickly made refinancing or sale unavailable as options. Some amount of misinformation, lack of disclosure, misunderstanding, fraud, and predatory lending appeared to further heighten the number of problem situations.

Our interview respondents also noted that especially recently defaults on low-documentation and no-documentation loans had become a larger part of the problem, with an increasing number of people committing to loan payments of very high percentages of their actual incomes. Part of this effect arose from the very risky Option ARMs, which allowed borrowers small early-year payments of their choice but were now requiring full amortization.

The views of our respondents are largely consistent with the findings of the first quarter of NFMC program data. NFMC grantees reported the primary reason for each client's default. The most common was loss of job or reduction of income, totaling nearly 40 percent between the two. Unfortunately, not being able to afford mortgage payments from the start was not among the categories offered on the NFMC reporting form. But it can be presumed to play a heavy role in the second most common reported category, "other," at 25 percent, given the inclusiveness of the 9 categories that were enumerated. And ARM resets and other increases in mortgage costs were third in the initial NFMC data.

Counseling Process

Question: What is the typical process service providers use when conducting foreclosure prevention counseling?

Respondents were consistent in their descriptions of important steps in foreclosure prevention and mitigation counseling. They recognized that some borrowers received services by phone, others at least in part in groups, others individually face-to-face, and many in various combinations of the three; and that some borrowers worked with counselors through all steps while others received less extensive aid and then proceeded on their own. The key steps for those borrowers who worked with counselors all the way to outcomes included the following.

- Outreach to borrowers, at least many of whom are either unaware of where to find counseling or reluctant to seek it out. Alternatively, borrowers are referred to or are able to contact counseling organizations, based on advice from servicers, through hotlines, and by similar means.
- Phone contact between borrower and counselor, yielding limited intake information sufficient to make sure it is worthwhile for borrower to come in or to proceed further by phone.
- Attempting throughout to de-escalate the stress and upset level for the borrower and start building a relationship based on counselor as trusted and informed third party.
- Obtaining initial intake information about the borrower, loan and its status, and financial circumstances, by phone or in person.
- Obtaining borrower authorization to request information from and share information with the servicer.

- In some cases, having a household participate in group education sessions: outlining some of the key issues and options facing a delinquent borrower; in some cases budgeting education and counseling; and/or helping borrowers understand the content of their mortgage document.
- Obtaining detailed information from the borrower about income, expenses, assets, and delinquent payments.
- Developing a budget, identifying the housing payment a borrower can afford to make in short term, based on an emergency budget plan, and an affordable longer term payment.
- Verifying income and debt.
- Determining whether the borrower can feasibly keep the house, based on sufficiency of long-run income to meet monthly payments and pay other bills, and ability to address current delinquency with emergency short-term budget savings and other resources.
- Developing an option or set of options for a proposal to the servicer, based on the specific borrower's situation—for a repayment schedule or loan modification that enables the borrower to stay in the home or mechanism for other disposition of the property if that is not possible.
- Assisting in contact with the servicer (if possible), exchange of information, and communication of the borrowers' needs and documented financial condition and workout proposal.
- Working with the servicer and borrower to reach a workout solution.
- In cases of apparent fraud, referring borrowers to appropriate legal assistance.

Foreclosure Counseling Success

Question: How should a successful foreclosure prevention counseling outcome be defined? How well is mortgage foreclosure prevention and mitigation counseling achieving these outcomes thus far? What proportion of counseled clients lose their home to foreclosure? How is this proportion different for people who do not receive foreclosure prevention counseling?

For our respondents, enabling borrowers to stay in their homes whenever feasible, avoiding foreclosure in both the short term and on a long-term sustainable basis, is the primary definition of counseling success. This outcome includes obtaining a loan payment level and schedule that is affordable to the household over the long term, avoiding default "recidivism."

Helping borrowers to minimize the burden of an alternative disposition for their homes when staying in them is not financially feasible, improving their results over their likely outcomes in the absence of counseling, is considered a secondary success by many. Such latter outcomes may involve helping homeowners to avoid large debts in addition to losing their homes, to avoid tax liabilities, or to reduce impact on credit scores and future ability to obtain financing.[10]

A small number of respondents mentioned other specific elements of success. One emphasized the borrowers having become clearly aware of options available to them, reviewed circumstances, and made a choice to stay over the long run or exit gracefully. Another mentioned borrowers avoiding waiving rights to remedy servicer or lender misbehavior, such as predatory lending tactics. Another highlighted the value of borrowers adjusting budgets in order to meet obligations originally incurred. And one respondent mentioned speed of disposition as a money saver at least to investors and savers.

Estimates of frequency of success of counseling efforts varied sharply with the definition of success being considered and with other important external circumstances. Respondents believe counseling is making a very sharp difference in borrowers avoiding foreclosure, but not in terms of being able to stay in their houses. Counseling is creating expanded opportunity for results including short sales, transfer of deeds in lieu of payment, and sales of the properties. Respondents indicated that in a large majority of cases in which counselors intervened (especially if they were able to stick with cases through to resolution), foreclosures were avoided. However, the solutions reached often did not allow them to stay in their homes.

Most respondents who offered an estimate or guess thought that success in terms of defaulting borrowers staying in their homes with payments they could afford over the long run was relatively infrequent. Many of them indicated that loan workouts to which servicers would agree were frequently repayment schedules for delinquent payments, sometimes with short-term interest adjustments, and did not involve long-term lowering of interest rates or reducing loan principal, which they felt were needed to allow borrowers to afford their mortgage payments over the long term. Respondents thought people did better with counseling than without in obtaining sustainably affordable workouts, but the rate of success of this kind remained low—protecting homes for perhaps half or less of those counseled initially and only a quarter or less—by one estimate in only 10 percent of cases-- over the longer term. The principal proponent, among our interviewees, of the view that servicers are negotiating useful stay-in-home workouts for large percentages of borrowers indicated that those large proportions were among people capable of meeting payments on roughly the original terms of their mortgages. Many of our respondents, however, believe that a large share of borrowers are not in such a position.

[10] It should be noted that this second outcome may be inconsistent with the legislative intent of the NFMC program, which emphasizes, “preserving homeownership and the long-term affordability of at-risk mortgages.”

The interviewees' overall perception of limited success in sustaining ownership is consistent with recent analysis of workout specifics, showing principal reductions to be uncommon and many repayment plans to leave monthly payments as high as or higher than before delinquency (White forthcoming). That is the kind of workout our respondents see as occurring frequently even for borrowers with at least some counseling assistance, and they are not optimistic about its long-term success in keeping owners in their homes.

The broad availability of direct financial assistance to people to meet delinquent payments and/or to help them pay continuing mortgage costs or reduce those continuing payments was, not surprisingly, seen by respondents to make an important difference in ability of borrowers to stay in their homes—perhaps doubling that likelihood. Two respondents involved with foreclosures in Pennsylvania highlighted the example of short and longer term assistance for residents being available from the State of Pennsylvania, where the rate of residents able to stay in their homes after facing default was much higher than in most other locations. How permanent that success may be in the current environment is yet to be finally determined.

Finally, respondents were careful to note that many defaults had yet to move to resolution in one way or another, as processes continued both with and without counseling, so that the full story was not yet in hand.

Variation in Counseling Outcomes

Question: How do counseling outcomes vary among housing (sub) markets, with borrower circumstances and characteristics, and with loan characteristics and status?

Interviewees do not in general think that the state of housing markets and submarkets in different regions, metropolitan areas, or neighborhoods is particularly significant in determining outcomes for delinquent borrowers, with and without counseling. They acknowledge some effect of very deep loss of value in a limited set of submarkets on people's willingness to work through their default problems, and some reduced ability to find workout solutions in areas of very depressed prices and low equity. One saw conflicting forces on lenders in areas of many starter homes and lots of subprime mortgages. These factors could discourage workouts because lenders/servicers feared further declines in values over time would reduce the value of their collateral should a later re-default occur, or encourage them because of fear that a foreclosed property would yield little value to the foreclosing lender at re-sale. No one highlighted the potential importance of low and falling prices yielding mortgage principal in excess of home value, despite the obvious effect on ability to sell or refinance to avoid foreclosure (though only in the latter case to remain in the home). Perhaps values are so ubiquitously low compared to mortgage principal that most submarkets are not differentiated by that feature. Respondents who mentioned possible impacts of deteriorating submarkets and prices on borrowers' willingness to make payments did not think that effect was strong.

More respondents highlighted the importance of differences across geography of kinds other than strength of the housing market. These included differing regulatory provisions among states, differing state and local policy and program responses to the foreclosure problems, and differing concentrations of loan types and underwriting practices that cause the most trouble. Examples include the concentration of marketing Option ARM and other subprime and exotic mortgages in locations with big price increases, high existing equity, and other conditions, or states' with laws which allow mortgage debt collection beyond foreclosure itself causing borrowers to redouble their effort to avoid foreclosure outcomes.

Respondents think that borrower financial situation is plainly a major factor in likelihood of successful outcomes. Traditional foreclosure factors in the form of worsened economic circumstances--including job and income loss, medical costs, and divorce-- if expected to be more than short term, sharply restrict options available options for curing defaults, unless outside financial assistance is available or lenders/servicers are willing to make modifications to principal and interest rates. Another factor is that, whatever the source of default, borrowers are likely to have exhausted other means of borrowing to pay bills before they stop meeting home loan payments. That can mean ruined credit and other pressure on available funds, further limiting workout options. And lenders are looking to income and cash flow in considering whether a change in loan on their part will produce a successful repayment. Obviously loans with payments that were never affordable to the borrower combine some of the worst features also occasioned by deteriorating economic circumstances.

Loan characteristics and status are also underlined as important by a number of respondents. Several specifically mentioned Option ARMs as causing problems, along with other relatively exotic loans. Option ARMs allow a choice of payments in the first several years, including paying less than accruing interest so that loan principal rises. Observers think a good many of these loans, especially low- or no-documentation loans, went to borrowers who cannot afford the later amortizing payments (whether based on original principal or newly expanded amounts). These loans have been coming to the point at which they require amortization more recently than the resets of other ARMs and are currently causing new waves of difficulty in some locations.

More widely, loans with longer periods of delinquency are more likely to proceed to foreclosure for a variety of reasons. Higher levels of cash needed for late fees and delinquent payments (if not folded into an extended loan) are one reason. And servicers often continue foreclosure processes even while attempting workouts, and in some cases foreclosure simply precedes the ability for counselors and borrowers find ways to salvage homeownership. Timing is also a factor in that some servicers decline to seek workouts in cases in which ARM interest rates have already reset, while others insist on waiting until a minimum period of delinquency has passed, even when borrowers want to address resets pro-actively.

Also more widely, according to our respondents, high current loan-to-value (LTV) ratios, resulting from a combination of high initial rates and from tumbling prices, restrict options for successful workouts. Folding repayments into existing mortgages are among the possibilities which high LTVs can inhibit, and high LTVs make lenders and servicers doubt the security of loans on which they are asked to provide some forbearance.

Obstacles to Foreclosure Prevention and Mitigation

Question: What are the most significant obstacles foreclosure prevention and mitigation counselors face when they try to obtain successful outcomes for clients?

Respondents indicated that obstacles to successful foreclosure prevention fell into three categories:

- *Communication problems.* Difficulties in the process of contact and transmission of information among servicers, borrowers, and counselors.
- *Capacity issues.* Related limitations of capacity of servicers, counselors, and borrowers to fully and promptly carry out their respective roles.
- *Constraints to loan modifications.* Constraints by servicers, and lender and investor counterparts, in willingness to make loan modifications yielding mortgage payments borrowers can sustain.

Each of these obstacles is discussed in more detail below.

Communication Problems

A major problem is the difficulty of communicating financial data and household information and questions, plans, proposals, and responses between borrowers, counselors, and servicers, according to our respondents. To begin with, borrowers are often reluctant to seek out counselors for help and to talk with servicers, perhaps out of embarrassment or fear. Several interviewees cited statistics on the high level of borrowers who actually proceed to foreclosure without ever speaking to their servicers, much less counselors. These respondents and others indicated there is continuing difficulty in making borrowers aware of counseling assistance availability and of how to reach appropriate agencies, and then getting them to make contact with counselors and to keep appointments. A particular problem is generating the contact early enough in the foreclosure process that counselors can still effectively perform their work. Greater outreach is still needed, and servicers need to refer borrowers to counselors more systematically. The availability of toll-free numbers and hotlines has moderated the problems somewhat. The lowest income borrowers are especially difficult to connect to counseling services.

A second, somewhat lesser challenge is for counselors to obtain adequate information and documents from borrowers. Some borrowers are reluctant to share their financial and related household circumstances information. Others do not know some significant facts about their income and expenses and/or cannot find necessary documents. Coming up with proper documentation of earnings and other data is sometimes difficult. Valuable time is spent assembling the information on which counseling assistance and proposals to servicers can be based. And sustaining engagement of borrowers is difficult with families that are being buffeted by multiple problems.

Third, and very strongly emphasized by respondents, is the difficulty of contacting servicers, for counselors as well as borrowers. Many counselors say this is the biggest single obstacle in their work. The large surge in defaults has overloaded servicer capacity, as discussed further in the next section. Getting someone to answer calls is often a major challenge in itself. Finding the right person can be even more difficult, especially if the counselor does not have a prior relationship with the servicing firm. Counselors need to make contact with servicers' loss mitigation, not collection staff. Eventually, getting the attention of a servicer staff with the authority to consider and approve workouts is crucial. Both of these steps may be challenges. And likely because of the stress on overloaded servicers, staff turnover is frequent, so that the person with whom a borrower and counselor has been working and exchanging information may not be available on a subsequent call. Ability to get information back about what is happening in a particular case, after making initial contact, is limited.

The ability to reach servicers is seen as improving due to recent implementation of servicer toll-free numbers for borrowers . Historically servicers did not have strong relationships with counseling agencies, or may not have been aware of them at all, and did not have working relationships with counselors as a regular part of their workflow. Counselors had contacts in some servicer shops but not others. An element still emerging is commitment to getting back to counselors within a defined period.

There remain important additional problems of transferring information once contacts are made. Secure electronic systems for transferring data and documents and documentation are only beginning to be put in place and tested. Servicers failing to receive and maintain information sent by borrowers and counselors is common. There is much room for doing more business digitally and electronically rather than by telephone, enabling servicers, counselors, and borrowers to manage their work more efficiently and avoid missing contacts and documents.

Capacity Issues

According to our reconnaissance interviews, the huge increase in delinquent mortgages and potential foreclosures has greatly taxed the ability of servicers and counselors to work with borrowers experiencing mortgage difficulties,. Counseling agencies do not have sufficient resources—notably trained foreclosure mitigation counselors—to handle current caseloads. Some counseling organizations have waiting lists of two weeks or more, and some borrowers are discouraged by what they have heard about waits for help. Counselors are being added to agency staffs and trained, and existing staff without foreclosure experience are being retrained; but the additions often lag behind the numbers of additional borrowers. Counselors vary in their levels of expertise, with newcomers to the field naturally still learning, although some come from the mortgage industry. New information about new options available for workouts is arriving rapidly. Only limited analysis is yet available of the optimal delivery mechanisms and approaches to foreclosure counseling service.

Limitations in counseling capacity have obvious consequences for numbers of borrowers served. In some cases, the challenges of getting everyone together and exchanging information in time means that time on the foreclosure clock runs out before solutions are reached, as the result of capacity constraints at both counselor and servicer ends. And at times counselors are unable to work with borrowers all the way to solutions, reducing contact once a plan of action, proposal, and contact with servicer are made. Counselors' attention is then diverted to the backlog of people waiting for initial assistance. This may mean a borrower being pressed to accept a workout she cannot actually afford over time, without a counselor's advice available.

Servicers too are swamped by the volume of mortgage defaults. The servicing industry relies on minimizing costs for high volumes of transactions. Little reserve capacity was in place as defaults rose rapidly, and the number of servicer staff in loss mitigation roles is for that and other reasons still inadequate. Firms have differed in the extent to which they have re-organized to increase the attention to that function. Loan modifications consume considerable staff time compared to other servicer processes including foreclosure and not, therefore, lucrative in the short run—discouraging focusing resources on workouts. New hires have been made often without a background in loss mitigation. Servicers are attempting to cooperate with counselors in ways they have not before and are learning about the behavior of borrowers under new circumstances as well.

The result is the exceptional difficulty in reaching and working with loss mitigation staff at servicing firms as already noted. Even a slowdown in contact can mean the difference between successful workout and foreclosure. Servicers' foreclosure staff generally proceed with, not suspend, their work even as loss mitigation staff interact with counselors on alternatives. Foreclosure can arrive first.

Constraints to Loan Modifications

Many though not all of our respondents identified the limited willingness of servicers to lower mortgage payments by lowering principal and/or interest on a permanent basis as a crucial obstacle to allowing borrowers to remain in their homes, even with the assistance of counselors. In many cases in which a loan modification of that kind is necessary for borrowers to afford future payments, only repayment rescheduling or at best short-term interest rate reductions are offered. The offers fall short of providing for sustainable affordability. Borrowers either cannot accept them or, in agreeing to them, set themselves at significant risk of future default. The fact that most defaulting borrowers coming for counseling either could not afford their mortgage payments at time of borrowing or have since had reversals in their financial situation could well mean that sharp limits on principal and interest modifications will limit counseling success—in both short and long run.

Another aspect of this issue is that servicers, with their lender/investor counterparts, continue to consider loan modifications on an individualized, retail basis. This continues their previous approach, which respondents say fit better in past periods of low default rates than it does in the current high-and-rising default environment. At the same time, this approach may permit more equitable consideration of borrowers' problems and address shortcomings in the original lending process, improving the likelihood of repayment following modification. But there is also a cost in inability to keep up with potential workouts for the surging number of borrowers in trouble. The intersection between this retail approach and the shortage of capacity in servicing firms is a substantial one. Servicer case load per staff person has risen, and staff-intensive style workouts make those loads very difficult to handle. Servicer staff may also face challenges in knowing on a current basis what options they have available to them for workouts.

Willingness to make permanent interest and principal modifications varies significantly among servicers. Low willingness may represent the policy of senior management or institutional inertia at lower levels. One respondent noted that unfortunately a given borrower has only one servicer with which to deal, even where that servicer is reluctant to make modifications, unlike the situation of a household owing several credit card firms.

Servicers do face some uncertainty regarding legal, tax, and accounting issues—particularly in connection to securitized loans – which may discourage broader and more wholesale consideration of loan modifications.[11] But in general those respondents who commented on the topic did not feel that these issues unduly limited servicer loan modification discretion in most cases, even in securitized loan cases.

Modifications may well be constrained by second liens on properties in default. Many borrowers for home purchase in recent years have piggyback loans—second mortgages for 20

[11] See appendix C for a brief summary of issues related to modification of securitized loans.

percent of original home value at purchase, which accompanied 80 percent first mortgages—used to avoid private mortgage insurance requirements. Other borrowers also have subordinate debt on their homes. Loan modifications can produce major or total losses for second lien holders, whose resistance to loan modification at their expense may prevent successful negotiation with holders of first liens. The difficulty of reaching such agreements may both prevent individual loan modifications from being agreed upon and complicate any attempt by servicers to write down principal on wholesale categories of loans.

Public funds, on a deferred loan basis for example, help address servicer reluctance to make principal and interest reductions and the challenges posed by second mortgages. Most states either do not have such programs or as yet have committed limited funds to them.

Approaches to Counseling Obstacles

Question: What are the most effective ways to deal with the identified obstacles to successful foreclosure prevention and mitigation counseling? Are current counseling and related programs able to address the obstacles satisfactorily or are changes or complementary approaches and tools necessary in order to be more successful? What best strategies and practices are being utilized to improve outcomes?

Most respondents feel that current processes and resulting outcomes are, as currently structured, producing levels of assistance delivery and successful outcomes that could and should be significantly raised. Various adjustments, significant shifts, and additions were suggested to make mortgage foreclosure mitigation counseling more efficient and effective. These include responses to obstacles in all three categories described in the previous section.

Getting more borrowers to contact servicers and counseling agencies remains a sufficiently significant issue to warrant additional outreach efforts, and some determined efforts are underway or in the offing. The HOPE NOW efforts to publicize the Homeownership Preservation Foundation's national Homeowner's HOPE Hotline and related combined marketing outreach by large servicers are important steps. In Chicago, the city government sponsors a 311 hotline; and [redacted] *(NWO)* uses everything from billboards to door-to-door distribution of flyers to attract borrowers in trouble. In the state of Pennsylvania, the governor and director of the state housing finance agency will soon sign and send a letter to every known borrower with an ARM—delinquent or not—in 20 of the state's counties, informing people about the availability of counseling and financial assistance and encouraging their contact with servicers and counselors if they face difficulty. The Pennsylvania approach is specifically sensitive to the fact that the earlier intervention by counselors and contact with servicers, the better the perceived chance of success. A respondent also noted research that shows that people who engaged in pre-purchase homebuyer education and counseling were more likely to use, and to use successfully, foreclosure prevention counseling as well, which suggests continued attention to that counseling component.

Contact with minority homeowners and the poorest homeowners remains a challenge. Research in other arenas, including mortgage loan marketing, suggests that many members of minorities receive information by a somewhat different mix of channels from that of non-Spanish-speaking whites. Expanded attention to Spanish-language radio and TV is one avenue of potential further value.

The largest number of suggestions for improvement were in the area of improved communication efficiency between counselors/borrowers and servicers. Conceptually, the idea is that counselors can both ease their own work with borrowers and have it be significantly more helpful in enabling servicers to do their work, if communication with servicers can be made easier. Both counselors and servicers could work with more borrowers more efficiently. Specific suggestions revolve around standardized, secure on-line communication mechanisms for providing borrower information and proposals to servicers and responses back to borrowers from servicers. Some mechanisms are already in trial or use and apparently are proving of value, although they do not yet cover as much of the process as some would like. Among the components of potential value are:

- Standardization of the information submitted by borrowers/counselors to servicers for their analysis, based on servicer definition of needs, and sufficient for a decision about a proposed loan modification.
- Secure, confidentiality-protected on-line transmission of that information.
- Requests for additional information, confirmation of receipt of materials, answers to questions etc. by e-mail rather than telephone.
- Standard expectations for speed of servicer response.
- Mechanism for servicers to supply reasoning for decisions as part of the on-line communication.
- A consistent point of direct contact with servicers for each borrower case, rather than only the toll-free number that borrowers often bring to their meetings with counselors.
- Standardized definition of what loan payments are affordable to households in given situations.

Among the systems developed that meet parts of these objectives are efforts by HOPE NOW to publish guidelines for information to be provided to servicers; [redacted] *(NWO)* in conjunction with Just Price Solutions, the nonprofit subsidiary of NHSA, in developing the Best Fit web-based system; piloting use of the Early Resolution system and modification of it by [redacted] *(NFMC Sub-grantee)*, Wells Fargo, and Bank of America; and [redacted] *(NWO)* developing its own on-line product. Benefits were noted to include getting into the loss mitigation queue more promptly, having more confidence that information submitted to the servicer has indeed been received, and receiving a preliminary recommendation more promptly.

Other process suggestions involve the organization of staff for counselor providers and servicers. These include conserving counselor time specifically for one-on-one counseling, by having non-counseling staff do initial intake of borrowers, and holding group borrower sessions laying out basic foreclosure information and options before undertaking individual counseling sessions. Additional practices are to designate one counseling staffer at a given agency to take charge of case escalations (assuming sufficient scale of activity), and servicers having a staff member designated and authorized to make decisions in more complex or difficult cases.

Aggressive counselors are said to be somewhat better able to get the attention of servicers, both by raising the public profile of the need for response and through such devices as sending qualified written requests for detailed information about loan status, application of payments and other servicer-held information. Such requests, defined by RESPA,[12] impose obligations on servicers to provide basic loan status data. While qualified requests do not stop the foreclosure clock from ticking, they do legally require a response within a limited time period. They can grab the attention of servicers, including someone higher up in decision-making chain, to generate a response to the overall case involved. Ready access to attorneys regarding individual issues such as workouts' tax implications or in cases of questionable lending practices can also be useful, especially embedded in, or at least closely tied to, counseling agencies.

Capacity-building efforts to overcome obstacles centered on staff training at both ends of the foreclosure process. Continued offering of foreclosure prevention and mitigation training to counselors, by NeighborWorks® and others, was highlighted, with special need for training scholarships for some agencies with high levels of training need and limited resources. Expanded use of place-based training may increase training access where large numbers of counselors need additional skills and information. Development of non-judgmental active listening skills, good financial analysis skills, and knowledge of available products and resources received particular mention for attention. Training counselors on legal issues to the point at which they can make referrals to attorneys in appropriate instances and protect borrowers against inappropriately waiving legal rights also received mention.

Servicers also need systematic training, given how many were added in a short period. Besides training, expanding opportunities for counselors to talk with each other and others in the foreclosure arena to discuss approaches to key issues may be of value—in venues such as training sessions, listservs, the HUD counseling network, and state-level gatherings—are perceived as helpful.

[12] Real Estate Settlement Procedures Act, 1990.

Finally, several means to increase frequency of servicers granting permanent interest rate and principal reduction relief, to have those modifications made on a more wholesale and less case-by-case basis, or to accomplish equivalent reductions in borrowers' short and long term mortgage costs through other means, were identified. The FDIC is working toward demonstrating more wholesale approaches to loan modification in institutions it has taken over, potentially to establish new standards of practice. Some suppliers of counseling services, and their allies, partners, and networks have gone beyond dealing with servicers on a case-by-case basis to try to fashion and reach agreement on servicer policy change toward more systematic use of loan principal and interest modifications—in individual cases and for categories of borrower situations. [redacted] *(Intermediary)* and Cleveland's East Side Organizing Project are among organizations pushing agreements for policy change with servicers. Some respondents would like to see more attention to that component, both servicer by servicer and agency by agency and across multiple servicers and agencies.

In the meantime, counseling agencies are asking that servicers identify more clearly what their current limitations on modifications are and the criterion for them, so that counselors and borrowers can more efficiently fashion proposals.

Counseling agencies and their partners continue to develop direct financial tools to help borrowers unable to meet their current mortgage payments. Deferred subordinate loans that allow people to pay off part of their first mortgages, or make subsidized payments toward them, in either case reducing out-of-pocket current payments, are one form—available from some local organizations and some states. Funds for refinancing existing loans, in some cases along with agreements for short payments to lenders (less than principal owed on current loans), provide another form of relief in some locations. In Pennsylvania, a network of lenders provides loan refinance (the REAL program), for example redoing ARMs as fixed rate mortgages at the ARMs' initial interest rates for households no more than two payments delinquent. For more severe delinquency and loans exceeding current values, counselors refer borrowers to the state housing finance agency. It negotiates for loan write-downs directly with lenders and makes a new loan for the agreed-upon amount.

Other shorter run approaches to key obstacles include emergency loans, especially if the borrowers' problems are temporary, as used extensively in Minneapolis and Pennsylvania, and relief from additional late fees and penalties while workouts are being pursued. In the long run, some respondents recommended requiring securitization contracts to give servicers clearer authority to undertake what loan modifications are needed for loss mitigation, and giving bankruptcy courts authority to modify loan terms for mortgages on primary residences in appropriate cases.

APPENDIX C – SECOND RECONNAISSANCE REPORT

National Foreclosure Mitigation Counseling Program Evaluation

Reconnaissance Findings and Suggested Case Study Topics

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The purpose of this report is to present findings from our second round of reconnaissance interviews for the evaluation of the National Foreclosure Mitigation Counseling (NFMC) program, administered by NeighborWorks® (NW) America, and, based on these findings, to suggest potential topics for in-depth study through follow-up case studies. The proposed topics for the case studies will be finalized based on information from a web-based survey of NFMC Grantees and Subgrantees, to be completed in summer 2010.

As we did in the summer of 2008 for our first round of reconnaissance interviews, we selected industry participants and observers of the mortgage lending and foreclosure counseling markets to gain an understanding of the context in which NFMC is operating. Through April 30, 2010, we completed interviews with 13 people, representing lenders, servicers, regulators, researchers, NW America staff, and NFMC Grantees. We asked key informants questions about the issues that are driving continued mortgage performance problems, challenges faced by counselors when seeking outcomes for their clients that are preferable to foreclosure, changes made by servicers and counselors to handle the demand for foreclosure counseling and changes in the foreclosure environment, and the impact of the Making Homes Affordable Program. The following highlights the key findings from our interviews, followed by suggested topics for further investigation through case studies.

A decline in income is the primary sources of mortgage performance problems for homeowners entering counseling

Two years ago, key informants said that mortgage performance issues were largely a function of subprime loans that were originated (perhaps in a predatory manner) to borrowers who could not afford payments, in part due to resetting interest rates. The environment has changed dramatically since then: key informants now say that mortgage delinquencies are driven by *income losses* resulting from *higher unemployment* or *reductions in hours worked* by people who still have jobs. This view is consistent with the Treasury Department's analysis of Making Home Affordable loan modifications, which indicated that 59 percent of permanent loan modification recipients required a lower payment because of a job loss, a reduction in hours and/or wages.[1]

Key informants said delinquent borrowers commonly have fixed-rate prime mortgages, compared to two years ago when many homeowners in trouble had adjustable rate subprime

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[1] U.S. Department of the Treasury. 2010. *Making Home Affordable Program Servicer Performance Report Through March 2010*. Report. http://www.makinghomeaffordable.gov/docs/Mar%20MHA%20Public%20041410%20TO%20CLEAR.PDF. Last accessed May 4, 2010.

mortgages. As a result, the current problems for borrowers relate more to overall debt (both with second mortgages and non-mortgage debt) than with first-lien mortgages, which already had relatively low interest rates.

Lack of income and negative equity for borrowers and insufficient servicer capacity are main challenges to foreclosure prevention counselors

Borrower circumstances

Two years ago, a typical delinquent borrower had a job with a steady income, but could not afford his/her monthly mortgage payment because the interest rate was too high. Moreover, many delinquent borrowers still had equity in their homes, and so wished to remain in their houses, albeit with a more affordable payment. Under these circumstances, a counselor would attempt to negotiate a loan modification with the homeowner’s loan servicer to make the loan payment affordable, given the homeowner’s income.

The typical scenario for a delinquent borrower is, according to key informants, very different today and it creates new challenges for counselors. First, as discussed above, many delinquent borrowers have either little or no income due to unemployment or under-employment. Absent employment (or minimal income from unemployment insurance, or limited income from a second earner), a homeowner cannot afford any payment, even if a mortgage’s interest rate is reduced to 0 percent. Second, owners with negative equity are likely to be less willing to consider a loan modification, as renting may be less expensive than a modified mortgage. And, third, even with a reduced payment, homeowners with large amounts of non-housing related debt (or second mortgages) may not be able to afford their mortgages, given the amount of income dedicated for debt service. Increased credit card payment minimums are a specific complicating factor, along with medical costs for people who, when they had jobs, had insurance but no longer do.

Because of these three issues, key informants indicated that helping delinquent borrowers with little or no income is extremely challenging. Higher debt burdens increase the likelihood that a borrower will not be able to remain current on a modified mortgage, providing a disincentive to servicers to modify a loan. Consequently, particularly in areas where many owners have negative equity, counseling agencies are increasing their efforts to negotiate short sales or deed-in-lieu transactions that allow an owner to move out of his/her home without going through the foreclosure process.

A few states, notably Pennsylvania and North Carolina, have programs designed to give unemployed workers extended loan assistance while they seek training and work. Informants familiar with these programs see them as effective, but successes are rare.

<u>Servicer capacity</u>

Nonetheless, many delinquent owners continue to seek loan modifications and prefer to remain in their homes, if at all possible. Unfortunately, many of the same process-related difficulties faced by homeowners that were identified two years ago remain, despite key informants' acknowledgement of servicers increasing their capacity to process loan modification requests since 2008.

Key informants indicated that, because of the consolidation of the lending industry in the wake of the financial crisis (for example, Bank of America acquiring Countrywide), companies had the difficult task of integrating disparate loss mitigation and servicing systems and procedures. In many cases, legacy systems had to be upgraded and coordinated with newer technologies. Moreover, some of the consolidation within the industry resulted in combining companies that traditionally originated or serviced prime mortgages with lenders that focused on subprime lending; the different types of lending required distinct loss litigation and servicing strategies and procedures.

In general, key informants said that lenders and servicers that consolidated in 2007-2008 have successfully integrated their systems, and have also hired additional staff to respond to the additional volume of work. In some cases, servicers have established "escalators," that is, persons who counselors can contact about a loan modification requests that have been in process for more than 45 days. Despite this progress, key informants still reported difficulties in reaching loss mitigation staff, being able to deal with the same person over time, getting consistent answers to questions, and finding servicer staff with sufficient authority to make decisions and provide some flexibility where appropriate.

The problem appears to be that the demand for loan modifications has increased even beyond the expanded industry capacity to process these requests. Staffing is still inadequate, and many new loss mitigation staff, who have been transferred or hired from other positions, were not adequately trained to carry out their responsibilities. Moreover, many servicers continue to rely on out-dated technology, such as fax machines, to accept loan modification requests, which often require documentation in excess of 100 pages. As a result, key informants said that homeowners seeking loan modifications (and their counselors) face a frustrating process of faxing materials to a servicer, who oftentimes misplace the application, and so require that the owner re-send documentation. In the meantime, the owner's income may have changed, which requires sending additional information that can re-set the clock for a servicer to consider a loan modification. The fact that both servicers and counselors use a diverse set of application and related loan modification documents, rather than standardized ones, further complicates the process at both ends.

Because of the cumbersome practices used by servicers to process loan modification requests, key informants said that it typically takes between 3-8 months for a servicer to review and approve a loan modification request. The time required to process a loan modification request may be reduced by a portal developed by HopeNow, which is starting to be used by more loan servicers and counselors, that allows clients to upload loan modification applications and their supporting documents via the web. But key informants said that it is too early to know if the portal will have its intended effect of making it easier for owners and servicers to manage a loan modification request. Thus far the pilot efforts are promising, but not all key players have signed on to participate in a full roll-out.

When asked why the industry still has not made it easier for owners to apply for loan modifications, most key informants suggested that servicers do not have the financial incentives to invest in systems that would allow them to process all of the potential requests for loan modification. Some respondents pointed out that servicers, before the crisis, were designed to process payments; and their 25-basis-points fee provided revenues to support relatively straightforward payment processing, with comparatively few loan modification requests. The fees do not support investments in capacity that would be required to handle the current volume of loan modification requests. Moreover, even if it did support such investment, the servicers realize that the crisis is temporary; and any build-up would result in over-capacity as the economic crisis starts to ebb and the demand for loan modifications subsides.

Some key informants, however, suggested that the problem is not related to insufficient funding and asserted that servicers have the funding to ramp-up their loss mitigation activities. The problem, according to these key informants, is that servicers do not have the requisite knowledgebase to implement cost-effective systems that would allow for processing and implementing an increased number of loan modification requests. Servicers may overestimate costs required to develop and implement the required systems and be unaware of tools that are not excessively expensive and could be implemented with some training, perhaps provided by a more experienced third-party.

Nonetheless, servicers do seem to be pursuing some revised practices that appear useful. Expanding outreach, using local field offices to work with borrowers in person, and providing downloadable and uploadable forms in their own document-flow systems, and establishing borrower advocacy and escalator staff are among the improvements noted by the key informants.

NFMC grantees have adopted strategies to handle increased demand for their services and to overcome industry challenges

Whatever the reasons for the servicing industry's inability to scale-up its capacity to process loan modification requests, counseling agencies still have to face this problem when serving their clients. As a result, counseling agencies use a number of strategies to increase their effectiveness, given problems with servicers. Key informants said that counseling agencies maintain direct contact information (phone numbers, fax numbers and emails) for servicers, which allows counselors to bypass 1-800 telephone numbers and get a decision-maker on the phone relatively quickly. Agencies share this type of information on the NeighborWorks' listserv, which also provides other best practices that can be replicated across agencies.

Even after an initial contact, homeowners oftentimes have to send updated information to a servicer, and perform frequent follow-ups with a servicer to ensure that a loan modification request not stall in process. Therefore, counseling agency staff members, according to key informants, instruct their clients to maintain contact with their mortgage servicer after submitting an application. In addition, given the volume of documents that are required to support a loan modification request, counseling agencies have purchased additional fax machines and scanners, the latter with the help of grants from the Rockefeller Foundation in response to new non-fax digital systems development.

To handle increased demand for foreclosure services, key informants reported that counseling agencies have implemented some changes to their production throughput processes. In particular, some agencies are providing basic information to clients through group workshops and, using criteria established by an agency, triaging cases so that clients in imminent danger of foreclosure are seen relatively quickly by counselors. In addition, some counseling agencies, through experience, have come to realize that a different set of skills are required for effective counseling, which requires discussing options with distressed clients, and for negotiating with the client's mortgage servicers. As a result, some organizations are dividing responsibility for meeting with a client and developing an action plan to a staff member, who, after developing a plan, passes the client's file to a negotiator, who is responsible for contacting the servicer and advocating a loan modification request on behalf of the client.

Key informants stressed, however, that the strategies discussed above supplement the major factor agencies use to achieve good outcomes: well-trained counselors who oftentimes work under extremely stressful conditions created, in part, due to the ongoing lack of servicer capacity to process loan modification requests. Key informants acknowledged NFMC's importance in providing funds to support and train counselors, and NeighborWorks' initiatives to provide training and best practices to organizations providing such services. Some urged expanded use of fee for service models paid for lenders/servicers in order to ease the funding crunch and enable counseling agencies to expand or maintain the staff NFMC's earlier funding levels provided for.

Home Affordable Modification Program's Effect on Providing Foreclosure Prevention Services

All of the key informants said that the Home Affordable Modification Program (HAMP) has had an enormous impact on the industry. One of the most positive effects of the program is that the loan modification target of reducing a payment to 31 percent of an owner's gross income established a standard goal that is now used by all participating servicers and counselors. Moreover, key informants said that servicers are using the HAMP standards to evaluate non-HAMP eligible loan modification requests, increasing the extent to which the industry is using a common method to evaluate loan modifications. HAMP's "waterfall" specification – that is, requiring the servicer to work through a series of required loan modification steps to reach the overall affordability goal – provides a very helpful structure for counselors and borrowers in developing modification proposals and for servicers in considering responses and proposals.

Nonetheless, key informants pointed out several problems with HAMP. The biggest problem with the program is that, by focusing on reducing payments so that they are no more than 31 percent of an owner's income, it addresses the problem of people having loans with interest rates that are too high. But, as discussed earlier, this is not now the major factor creating delinquencies. HAMP does not generally provide relief for owners who have little or no income because of unemployment or under-employment. The revised HAMP guidelines provide for forbearance if an owner is unemployed, as well as the inclusion of unemployment benefits in front-end computations; and that may be an important assist. But some key informants suggested that the forbearance period (up to six months) is too short, given the typical unemployment spell in the current recession.

HAMP loan modification requests are evaluated by a servicer by calculating the net present value (NPV) of a modified loan and comparing that NPV to the current loan's NPV including the likelihood of foreclosure. If the modified loan's NPV is greater than the existing loan's NPV, then the modification is considered NPV positive, and the servicer must approve the modification request.[2] Key informants said that, despite the fact that some of the parameters in NPV calculations are public knowledge, the values used by each servicer are not known where they differ from those initially posited by the U.S. Treasury Department. Therefore, if a client's HAMP application is rejected because the modification is not NPV positive, it is difficult to get information from the servicer that was used in the NPV calculation so that the results can be verified. Many key informants characterized the NPV model as a "black box" which makes it difficult for an applicant to understand why his/her application was denied

[2] *Home Affordable Modification Program, Base Net Present Value Modification Specifications.* https://www.hmpadmin.com/portal/docs/hamp_servicer/npvoverview.pdf. Last accessed May 4, 2010.

or to focus adjustment of their circumstances to obtain approval. Although HAMP applicants are able to appeal a servicer's decision, the lack of transparency in the NPV model makes it difficult to make such an appeal. Some observers faulted Freddie Mac's oversight for being too quick to approve whatever servicers claim as reasons for rejection of HAMP modifications. Moreover, key informants said that the process used to enforce servicers' compliance with the requirement of responding to such appeals is not in place, and so not as effective as it should be.

Despite the above problems, some of the key counseling agency informants said that they were relatively successful in getting clients trial HAMP modifications. But, these same informants said that it was difficult for trial HAMP modifications to be made permanent. They noted that some trial HAMP modification recipients are unable to remain current on their payment for three months, which is a requirement to receive a permanent HAMP modification. Nonetheless, even owners who make the required three payments under a trial HAMP modification find it difficult to receive approval for a permanent HAMP modification. A major reason, according to key informants, is that servicers require more extensive documentation to approve a permanent HAMP modification compared to a trial HAMP modification. Because servicers do not have the required capacity to process such requests, documents are lost, and decisions take between 4 and 6 months.

The lack of principal reduction provisions in HAMP has been a problem for borrowers with underwater mortgages and deep employment problems. The new provisions, yet to be specified, may prove helpful. One further note is that some servicers have yet to join HAMP in using any of its existing provisions.

Potential Issues for Case Studies

Based on our key findings, we recommend that the following issues be addressed through additional case studies conducted with selected NFMC Grantees/Subgrantees. For each issue, we include specific questions that would be asked of NFMC Grantee/Subgrantee staff members and counselors.

1. What are counselors doing to aid clients who have major loss in income due to unemployment or underemployment? How are servicers responding?
    a. What are basic strategies used by counselors for clients that have little income?
    b. What are basic strategies used by counselors for clients with large unpaid medical bills and credit card balances?
    c. How and how well does HAMP currently work for people in these situations? What level of improvement do you expect will result from forthcoming HAMP provisions for forbearance?
    d. What level of assistance would the clients you can't currently work with very well need to avoid foreclosures?

2. What are counselors doing to aid clients whose mortgages exceed the value of their homes?
   a. How common are these situations for your clients?
   b. What options do you identify for them and which interest them?
   c. What strategies do you use?
   d. What kind and amount of principal reduction would HAMP need to provide to make a significant difference in keeping these borrowers in their homes?

3. At this point, what problems are raised by servicers' existing processes to accept loan modification requests? What are best practices for counselors to use to deal with this problem?
   a. What have been the agency's most effective strategies to increase the organization's capacity to handle the demand for its services?
   b. What are the most effective techniques to build counselor/servicer relationships? (e.g. system (non-case-by-case) agreements between counseling agencies and servicers, individual relationships, reducing the number of counseling staff involved with each servicer).
   c. Based on the organization's experiences in dealing with servicers, what are the most important changes adopted by servicers that have helped counselors serve their clients?
   d. What are the most important additional changes for servicers to make?
   e. How effective is the new digital system(s) for scanning and then transmitting (and not losing track of) documents? How about on-line availability of forms for fill out and submit? Are things still getting lost?
   f. How sharp are the differences in responsiveness (along multiple dimensions of cooperation) among servicers? Are there servicer models of systems and behavior that might be usefully adopted by others?

4. How well does HAMP work, with counseling? What does counseling do to improve the HAMP success level? What is the role of counselors in a HAMP environment?
   a. Given your experiences with HAMP loan modification requests, what is your opinion of the process used by servicers to evaluate a trial HAMP modification request? A permanent HAMP modification request?
   b. What has been the value of HAMP in standardizing the characteristics of loan modifications across servicers, even for non-HAMP eligible loans?
   c. What are the most valuable and effective aspects of HAMP in helping with your work?
   d. What are HAMP's key shortcomings in assisting with your work?
   e. Based on your counselors' experiences, how well do you think the NPV models used by servicers identify sustainable loan modifications? To what extent are

decisions based on NPV models explained to applicants and, if an application is denied, how easy is it for a client to appeal the servicer's decision?
   f. What are the most effective strategies your counselors use for clients who want to apply for a permanent HAMP loan modification?
   g. What are things you have learned about using HAMP and counseling together to get best results—things you did not know or think of when HAMP first was adopted?

5. Strategies for non-HAMP eligible loans
   a. What is the process your organization uses for clients who are not eligible for HAMP loan modifications?
   b. To what extent are loan modifications received by such clients similar or different from HAMP loan modifications? What accounts for these differences and similarities?

6. For agencies working in areas that have mediation programs and/or rescue funds available:
   a. To what extent do rescue funds assist clients facing foreclosure?
   b. What is a counselor's role in helping clients receive such funding?
   c. What is the counselor's role in assisting clients who participate in a mediation session with their servicer?
   d. What are the major benefits from mediation? What are the most common outcomes from mediation sessions?

APPENDIX D – FIRST WEB SURVEY REPORT

Note: Originally published as part of *National Foreclosure Mitigation Counseling Program Congressional Update, Activity through March 31, 2009*, report.

III. PRELIMINARY WEB SURVEY RESULTS

As part of the NFMC program evaluation, a web-based survey was administered to all NFMC Grantees and Subgrantees. The survey was designed to collect information on the following topics:

- Grantee perceptions of NW America as the NFMC program administrator;
- The impact of a grant on a recipient organization's capacity to deliver foreclosure counseling services;
- The extent to which client-level reimbursements cover total foreclosure counseling costs;
- The availability of sources of financing for clients to help pay off arrearages or refinance their existing mortgages;
- The obstacles faced by organizations in serving expanded numbers of clients and the mechanisms they employed to meet them; and
- The challenges to obtaining successful outcomes for clients and the strategies used by respondents to increase their ability to help borrowers obtain those positive results.

The preliminary results discussed below are from data collected from the web-based survey, included in Appendix B, which was sent to 674 email contacts in April 2009. Data were collected through April 30, 2009. Some email contacts represented more than one organization's name or multiple branches or affiliates of a Sub-grantee or Grantee. Of the original 674 email contacts, 49 returned as undeliverable. Therefore, the potential number of respondents was 625; a total of 340 respondents completed the survey, which represents a response rate of 54 percent.

Summary of Findings

The responses indicate the following key points:

- More than half of the respondents reported that the Funding Announcement and Grant Agreements developed by NW America provided clear guidance about the materials to include in an application and the services that respondents are required to provide with their NFMC program funding. A smaller percentage of respondents reported that material presented by NW America at bidder conferences provided as much clarity as the Funding Announcement.

- NFMC program funds allowed respondents to serve more clients and offer their services in a larger geographic area, compared to the year before receiving their NFMC funding. Respondents report that they, on average, served nearly three-times as many clients in 2008 compared to 2007. Half of the respondents indicated that they increased their coverage area.
- Respondents estimate that, on average, the fully-loaded per-client cost to provide Level 1 counseling services is $218; for Level 2 services, $350; and $500 for Level 3 services.
- Although 40 percent of respondents indicate that they have access to some emergency rescue funds, only three percent of clients of organizations that have access to such financing receive it. Twenty percent of respondents indicate that they offer clients soft-second or reduced cost, first-lien mortgages. However, less than one percent of these respondents' clients receive such loans.
- A relatively small share of respondents' clients return for further counseling because they cannot keep up with their repayment plans (10 percent) or modified loans (5 percent).
- Among the most frequently identified obstacles to achieving anticipated counseling volume were start-up challenges, including modifying management systems (client tracking, data reporting) to meet NFMC program requirements; time to train additional counselors; delays in program start-up (contracts and funding); and time for building up outreach to potential clients.
- Counseling organizations' most common response to capacity constraints was to hire and/or train more counselors. They also frequently designated a single staff person to handle NFMC reporting requirements.
- The main challenges respondents identified in achieving successful outcomes for their clients were in two areas: clients' financial situation and lack of servicer responsiveness. The single most frequently identified challenge was clients' job loss or reduced wages/income, because such clients often have inadequate resources to support even a loan modification or refinance. The most serious servicer-related challenges were being able to communicate with loss mitigation staff in a timely and consistent way, exchange documents and authorizations, and obtain responses to loan modification requests.

- Respondents found that their ability to achieve successful outcomes for borrowers relied most importantly on several strategies for working with clients and for arriving at loan modification proposals that met both borrower and lender needs. The former included being frank from the start with clients about expectations, working with them one-on-one, and creating action plans in the first meeting. The latter included getting a clear understanding of what servicers wanted to see in loan modification applications and carefully reviewing proposals that lenders offered. The remainder of this chapter provides further detail of the web survey results.

Organizational Profile of Respondents

The respondents represent a good mix of organizational types and also NFMC funding channel (Table 3.1). Slightly more than a quarter of respondents are a NeighborWorks Organizations (NWOs). Nearly an equal share of respondents received their NFMC Round 1 grant through an award made to either a State Housing Finance Agency (38 percent) or a HUD-approved Housing Counseling Intermediary (37 percent). The remaining respondents received their funding from an award made to a NeighborWorks Organization (19 percent) or awards made to more than one type of organization (4 percent).

Table 3.1: Type of respondent organization and NFMC funding channel

Respondent is a NeighborWorks Organization	Frequency	Percent
No	240	70.6
Yes	90	26.5
Don't Know	10	2.9
Source of NFMC funding channel received by respondent		
State Housing Finance Agency	130	38.2
HUD approved housing counseling intermediary	126	37.1
NeighborWorks Organization	64	18.8
Multiple Grantees	13	3.8
Don't Know	7	2.1

Source: Survey of NFMC program Grantees and Sub-grantees.

Under the NFMC program, organizations can receive their funding as a Grantee, which means that the organization has an grant agreement with NW America, or as a

Sub-grantee; Sub-grantees receive their funding from Grantees (Table 3.2). NW America awarded NFMC funds in Round 1 to 130 Grantees, but nearly 800 organizations received NFMC program funding as Sub-grantees. Therefore, it's no surprise that 75 percent of respondents are a Sub-grantee, compared to the 20 percent of respondents that receive their Round 1 NFMC grant as a Grantee.

Table 3.2: Share of respondents that are a Grantee or Sub-grantee

	Frequency	Percent
Grantee	68	20.0
Subgrantee	256	75.3
Both	11	3.2
Don't Know	5	1.5

Only those respondents who provided counseling services directly, rather than solely through Subgrantees, were asked questions about the challenges associated with offering these services (Table 3.3). About 82 percent of respondents provided counseling services directly to clients.

Table 3.3: Respondent provides foreclosure counseling services directly

	Frequency	Percent
No	53	15.6
Yes	278	81.8
Don't Know	9	2.7

Source: Survey of NFMC program Grantees and Sub-grantees.

Overall, respondents provide foreclosure counseling services in 49 out of 55 (89 percent) states and territories. California and New York are states that are served by the greatest number of respondents (26 each), followed closely by Florida and Ohio (Table 3.4). Illinois, Minnesota and North Carolina are each served by 18 respondents; the remaining states served by a relatively large number of respondents include Maryland (16), Colorado (14) and Georgia (14).

Table 3.4: Top 10 states in which respondents primarily provide their counseling services

State or Territory	Frequency
California	26
New York	26
Florida	24
Ohio	24
Illinois	18
Minnesota	18
North Carolina	18
Maryland	16
Colorado	14
Georgia	14

Source: Survey of NFMC program Grantees and Sub-grantees.

Communication of Applicant and Grantee Expectations

To provide potential applicants with information about the NFMC program and application requirements, NW America held bidder conferences and posted a Program Funding Announcement and Application Guide on the organization's website. The survey asked respondents who prepared an application for the Round 1 NFMC program the extent to which they agreed, on a scale of 1 (strongly disagree) to 5 (strongly agree) with statements about the clarity of instructions provided by NW America to complete a NFMC program application.

More than half of all respondents (Table 3.5) either agreed or strongly agreed that the Program Announcement and Application Guide provided clear guidance about the materials to include in the application (59 percent) or the types of services required by Grantees (54 percent). On the other hand, less than half of respondents agreed or strongly agreed that materials provided by NW America in bidder conferences provided clear guidance about the information required in the application (48 percent) or the services required by a Grantee.

Table 3.5: Mean response to questions about the NFMC program's application process

	Mean Response (See note)	Respondents who either agreed or strongly agreed with the statement	
		Frequency	Percent
The NFMC Program Funding Announcement and Application Guide provided clear guidance about materials to include in the application.	3.7	94	58.9
The presentation made by NWA at its bidder conferences provided clear guidance about what to include and clear information	3.6	75	48.0
The NFMC Program Funding Announcement provided clear guidance about the types of services required to be delivered by Grantees.	3.6	91	53.9
The presentation made by NeighborWorks America at its bidder conferences offered clear guidance about the types of services required to be delivered by Grantees.	3.5	73	41.2

Source: Survey of NFMC program Grantees and Sub-grantees.

Note: Respondents were asked to select, on a scale of 1 (strongly disagree) to 5 (strongly agree) how much they agreed with each statement.

Each Grantee executed a Grant Agreement with NW America. This Agreement included the number of clients that the organization was expected to serve, by level of counseling. Nearly two-thirds of respondents agreed or strongly agreed that Grant Agreements provided clear guidance about the types of services required by the Grantee (Table 3.6). NW America, since the NFMC program started, made adjustments to reporting requirements and responded to questions from Grantees and Sub-grantees. Slightly less than half of respondents agreed or strongly agreed that NW America provided clear guidance about reporting requirements under the NFMC program. A larger share of respondents (57 percent) agreed or strongly agreed that NW America has provided information in a timely manner since the NFMC program began.

Table 3.6: Mean response to questions about NW America's post-award process

	Mean Response (See note)	Respondents who either agreed or strongly agreed with the statement	
		Frequency	Percent
Your organization's Grant Agreement provided clear guidance about the types of services NeighborWorks America requires you to provide to clients.	3.7	99	62.7
Since receiving our grant, NeighborWorks America staff has provided clear instructions about program activity reporting requirements.	3.4	95	45.1
Since receiving our grant, NeighborWorks America staff has provided answers to our requests for information in a timely manner or, if they did not know the answer right away, they let us know the timeframe during which we would receive a response	3.6	95	56.9

Source: Survey of NFMC program Grantees and Sub-grantees.

Note: Respondents were asked to select, on a scale of 1 (strongly disagree) to 5 (strongly agree) how much they agreed with each statement.

Counseling Costs

The NFMC program requires Grantees to supplement their award with other sources of funding, and so awards are not intended to cover all costs associated with providing foreclosure counseling services. Under the program in Round 1, Grantees receive $150 for counseling Level 1 clients, $200 for Level 2 clients for $350 Level 3 clients. Most Grantees also receive Program-Related Support, which can be as much as 20 percent of a Grantee's counseling award. Moreover, State Housing Finance Agencies and HUD-approved Housing Counseling Intermediaries can receive additional funds to support operational oversight.

Respondents that provide counseling services directly were asked to estimate the fully-loaded costs to provide each of the three counseling levels (Table 3.7). Because there is wide range of potential costs, depending on the complexity of a given client's case, respondents were asked to estimate the lowest fully-loaded cost, the average fully-loaded cost and the highest fully-loaded cost for providing foreclosure counseling services to their clients. Some respondents did not know these costs, and so did not answer the question. Some of the responses were too high (a respondent answered that it cost, on average, $54,000 to provide counseling services to a client). As a result, the median responses are most appropriate to use because they are unaffected by extreme values entered by respondents (likely in error).

Median costs to provide Level 1 counseling ranges from between $150 to $300 per client; the median average expense to provide this level of counseling is $218, which is about 70 percent of the $150 per client reimbursement Grantees receive under NFMC. Level 2 counseling services require a Grantee to perform more extensive counseling efforts as compared to Level 1. As a result, it is not surprising that the median average per-client cost for providing Level 2 services, according to respondents is $350, but range from $213 for low-cost clients to a median of $500 for higher-cost clients. Grantees receive $200 for Level 2 services, which is about 60 percent of the reported median average cost for providing Level 2 services. This suggests that Grantees finance a greater share of Level 2 counseling activities from sources other than the per-client reimbursement from the NFMC program

Table 3.7: Median estimated per-client fully loaded costs for providing counseling services

Counseling Level	Median lowest cost for a client	N	Median average cost for a client	N	Median highest cost for a client	N
Level 1	$150	137	$218	147	$300	136
Level 2	$213	118	$350	128	$500	117
Level 3	$350	128	$500	141	$750	128

Source: Survey of NFMC program Grantees and Sub-grantees.

Grantees receive $350 for Level 3 counseling when they provide all of the services associated with Level 1 and Level 2 counseling to a single client. The median average cost for providing these services, according to the respondents, is $500, but ranges from a median loan of $350 and a median high of $750. For each cost, the median Level 3 counseling cost is less than the sum of the median Level 1 and Level 2 cost. This suggests that Grantees realize some economies of scale when they provide a combination of Level 1 and Level 2 services (the $350 per-client Level 3 reimbursement equals the sum of the $150 per-client reimbursement for Level 1 counseling and the $200 per-client reimbursement for Level 2 counseling). As a result, the per-client reimbursement for Level 3 counseling is 70 percent of the median average cost; this share is greater than Level 1 or Level 2.

It is important to interpret the cost numbers provided by Grantees with caution. Some Grantees could not estimate these costs, and the estimated costs to provide per-client counseling services provided by respondents do vary. Nonetheless, the respondents' costs provide some evidence that Level 2 counseling, perhaps because some Grantees feel the need to re-evaluate the financial plan provided by another Grantee in Level 1, require more supplemental funding than the other counseling levels.

Increases in Service Capacity

The NFMC program was designed to increase the capacity of organizations to provide foreclosure prevention counseling services in response to higher foreclosure rates. Applicants generally proposed to provide services to more clients than their previously demonstrated experience. Based on information provided by respondents, it appears that NFMC program fund recipients did serve many more clients in 2008 as compared to 2007 (Table 3.8). The median number of clients served by respondents in 2008 was 233, nearly three times the median number of clients served by respondents in 2007. Because some organizations provided services to a relatively large number of clients, the mean number of clients served by respondents in 2008 (853) was about twice as great as the mean number of clients served by respondents in 2007.

Table 3.8: Increase in the number of clients served by respondents and counselor FTEs employed by respondents in 2008 compared to 2007

	Mean	Median	N
Number of clients			
Number of clients (whether funded by the NFMC Program grant or not) that the respondent's organization directly provided foreclosure prevention counseling in Calendar Year 2007	412	79	224
Number of clients (whether funded by the NFMC Program grant or not) that the respondent's organization directly provided foreclosure prevention counseling in Calendar Year 2008	853	233	249
Number of counselor FTEs			
Number of foreclosure prevention counselor FTEs employed by respondent in year before receiving NFMC Program grant	2	1	269
Number of foreclosure prevention counselor FTEs employed by respondent at the end of calendar year 2008	5	2	272

Source: Survey of NFMC program Grantees and Sub-grantees.

Some of this increase in volume resulted from respondents increasing their coverage area: 51 percent of respondents indicated that they expanded their coverage areas with program funds. The large increase in clients served by respondents in 2008, compared to 2007 was accomplished by a small increase in the number of counselor FTEs added in 2008. The median respondent employed 1 full-time foreclosure prevention counselor in 2007 and, by the end of 2008, had 2 such counselors. Although this is a 100 percent increase, it still means that half of the respondents had no more than 2 full-time foreclosure counselors at the end of 2008. It may be that Grantees provide foreclosure prevention counseling with staff who provide other types of services, so there are actually more than 2 people providing foreclosure prevention counseling, but they do not spend 100 percent of their time on such services. Although respondents typically did not add many counselors, 66 percent of respondents indicated that they provided a wider array of foreclosure counseling services with their NFMC program funds compared to the year preceding the program.

Availability of soft-second and rescue funds

Many loan modifications require that the borrower make a down payment that represents advance payments and/or cure the delinquency. Therefore, the availability of loans or grants that can be made to clients increases the likelihood that they can agree to a loan modification. About 40 percent of respondents can offer such financing to their clients, which may reflect funders' recognition of the importance of such funds to help homeowners avoid foreclosure (Table 3.9).

Table 3.9: Respondent offers emergency grant or loan assistance to clients that allow them to bring mortgages current or to undertake a repayment plan

	Frequency	Percent
No	171	59.6
Yes	115	40.1
Don't Know	1	0.3

Source: Survey of NFMC program Grantees and Sub-grantees.

Although 40 percent of respondents can offer their clients emergency grants or loans, respondents that offer such financing reported that only a median of 10 clients received either an emergency loan or grant in 2008 (Table 3.10). The median number of clients served by organizations that offered emergency grants or loans in 2008 was 300; therefore, on average only 3 percent of clients served by organizations that offered emergency grants or loans in 2008 received such financing in 2008. It may be that the eligibility requirements for such funding restrict the number of clients who can qualify for rescue funding, or that some clients, even with the funding, do not receive loan modifications.

Table 3.10: Emergency Grant or Loan Assistance

	Mean	Median	N
Number of homeowners, in calendar year 2008 that received emergency grant or loan assistance to allow them to bring their mortgages current or to undertake a repayment plan from the respondent's organization	32	10	87

Source: Survey of NFMC program Grantees and Sub-grantees.

In addition to a loan modification, clients can be helped by programs that make available soft-second mortgages or reduced-cost, first-lien loans that may allow them to refinance their existing mortgage. A relatively small share of respondents (20 percent) indicated that they could offer their clients such financing, which is half of the share of respondents who indicated that they has access to rescue funds (Table 3.11). It may be that refinance loans require more funding than emergency funds that help clients cure arrearages; as a result, there is less funding available for soft-second or reduced cost, first-lien mortgages.

Table 3.11: Respondent offers soft-second or reduced cost first-lien loans

	Frequency	Percent
No	231	80.5
Yes	56	19.5

Source: Survey of NFMC program Grantees and Sub-grantees.

Relatively few clients (a median of 3) served by respondents that offer soft-second or reduced cost, first-lien mortgages receive such financing (Table 3.12). The median number of clients served by respondents who indicated that they offered soft-second or reduced cost, first-lien loans in 2008 was 465. As a result, on average less than 1 percent of clients served by respondent organizations that made available soft-second or reduced cost first-lien mortgages received these loans in 2008.

Table 3.12: Soft-second or Reduced Cost, First-Lien Loans

	Mean	Median	N
Number of homeowners, in calendar year 2008 that received soft-second or reduced cost, first-lien loan from the respondent's organization	17	3	37

Source: Survey of NFMC program Grantees and Sub-grantees.

It is not clear what accounts for the small number of clients that received a soft second or reduced cost, first-lien mortgage. It could be that underwriting standards for such financing are too restrictive, or that the terms of the loans are not better than loan modifications offered by lenders.

Client Recidivism

Some analyses indicate that loan modifications are not sustainable; a recent report shows that nearly 44 percent of loans are delinquent nine months after the loan was modified.[5] Respondents do not track loan performance, so they cannot know the status of clients' loans after they have been modified. However, it appears that only a small share (a median of 5 percent) of clients who received a loan modification return for counseling because they are delinquent on their modified loan (Table 3.13).

Table 3.13: Clients Returning for Further Counseling After a Loan Modification or Repayment Plan

	Mean	Median	N
Share of respondent organization's clients who received a loan modification returned for further counseling because they had trouble making payments on the loan	12	5	180
Share of respondent organization's clients who entered into a repayment plan (but no loan modification) that returned for further counseling because they had trouble making scheduled payments required by the plan	17	10	160

Source: Survey of NFMC program Grantees and Sub-grantees.

A larger share of clients (a median of 10 percent) return for further counseling after receiving a repayment plan, but not a loan modification (Table 3.13). It could be that clients find it harder to remain current on repayment plans, which may not reduce the client's loan payment, compared to loan modifications. Alternatively, it could be that recipients of loan modifications are less likely to return to the respondent for more counseling and elect to contact their servicers directly.

Obstacles Faced in Meeting Counseling Goals

Organizations providing direct counseling were asked to identify up to 3 obstacles to meeting their counseling production (numbers counseled) goals, as distinct from getting positive outcomes for clients (Table 3.14). Four of the six most frequently identified obstacles to achieving anticipated numbers served were start-up challenges, including modifying management systems (client tracking, data reporting) to meet NFMC program requirements (ranked number one), time to train additional counselors, delays in program start-up (contracts and funding), and time for building up outreach to potential clients. Presumably these obstacles, having been addressed, will not need to be important barriers in second round work for those counseling organizations that continue program participation.

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[5] OCC and OTS Mortgage Metrics Report. *Disclosure of National Bank and Federal Thrift Mortgage Loan Data Fourth Quarter 2008* http://www.occ.treas.gov/ftp/release/2009-37a.pdf.

The other two highest ranked items may be continuing ones: people already counseled at the same level by another organization (perhaps including counselor shopping for people hoping to find a solution to an unsolvable situation) not being reportable as clients by a second provider and people seeking funds of a type not available from a given organization, to bail them out or simply lower their costs.

Table 3.14: Obstacles to Reaching Goals for Numbers of Clients Served

Obstacle	Frequency
Modification of management systems to accommodate NFMC	107
Couldn't get credit after client received counseling from another Grantee	91
More time needed to train	80
Borrowers interested in monetary assistance	71
Delays in program start-up/funds arrival	70
More time needed for outreach	61
Other	59
More time needed to hire	46
Not enough demand for counseling services	33
No obstacles	29
Many borrowers sought assistance from outside contracted MSA	10
Don’t Know/NA	6

Source: Survey of NFMC program Grantees and Sub-grantees.

Strategies Used to Increase Capacity

Survey respondents were asked to indicate the two most important ways they expanded their organizational capacity to handle increased client flow (Table 3.15). The primary ways indicated were to train existing staff to handle foreclosure work (133 respondents) and to hire additional counselors (107). The mechanism cited third most often, triaging clients at intake, was far behind these two with 60 mentions, followed again well back by partnerships with other agencies for intake and referral in or out. For the most part, NFMC service providers could not accommodate the increase in counseling services with existing staff and systems. Many organizations had to alter their counseling approaches, modify or augment their systems, and hire new staff to meet the increased demand for services.

Table 3.15: Capacity Building Approaches to Serving Increased Numbers of Clients

Capacity-building responses	Frequency
Sending existing staff to training	133
Hiring additional staff	107
Having experienced senior-level staff train lower-level staff	74
Establishing caseload triage system	60
Holding group clinics	48
Partnerships	44
Taking advantage of temporary/volunteer work	20
Using NFMC's e-learning course	19
Using improved means to reach clients	13
Don't Know/NA	5

Source: Survey of NFMC program Grantees and Sub-grantees.

Handling Reporting Requirements

We asked counseling organizations for the two main ways they handled increased reporting requirements mandated by the NFMC program (Table 3.16). The largest number, 101 respondents, indicated that they had assigned a staff person to deal only with data and reporting and relieve counselors from many of their reporting tasks. Not far behind were continued quality control checks of data entry into the electronic client management system and the redesign of intake and counseling processes to better match reporting requirements. Clearly many respondents made significant efforts to respond to the requirements.

Table 3.16: Approaches to Meeting NFMC Reporting Requirements

Approaches	Numbers
Assigned a staff person to dealing only with data and reporting	101
Continued quality control checks on data entry	92
Adapted intake and counseling process to data collection requirements	81
Devoted staff time to redesigning some aspect of reporting	77
NFMC simplified set of required data	60
Reallocation of staff time to reporting	51
Trained staff to collect and report data	33
Learned from WebEx trainings about how to report	10
Other	9
Eliminating glitches in exported content from Client Management Systems for NFMC	9
Hired new IT staff	4
Don't Know/NA	3

Source: Survey of NFMC program Grantees and Sub-grantees.

Challenges to Achieving Successful Outcomes

Major challenges represented two dimensions of the counseling environment and process—the financial capacity of clients and the responsiveness of servicers. Respondents rated each of the items provided as possibilities on a 1 to 5 scale, with 5 meaning an extremely serious challenge.

The challenge both most often rated at 5, and most often given either a 4 or 5, was the clients' loss of income, either a job loss or reduced wages, leaving borrowers without adequate resources to support a loan modification or refinance (Tables 3.17). That factor topped the list in number of ratings of 5 (204) and numbers of 4 or 5 combined (259). Presumably these cases were frequent and very difficult to handle effectively.

Close behind, however, was the challenge of receiving slow or no responses from servicers. That challenge was rated as extremely serious by 202 respondents. In fact, 6 of the 7 challenges rated the most serious were related to working with servicers. Interestingly, these challenges primarily relate to the process of communicating, exchanging documents and authorizations, and obtaining responses. Respondents did indicate that servicers' unwillingness to make sufficient loan modifications and forbearance agreements to match borrower resources was also a significant challenge.

Perhaps—given the prevalence of the servicer problems--there could be devised ways, at relatively low cost compared to that of foreclosure, to strengthen servicer response. Of course more loans moving forward in the loss mitigation process could increase the difficulty of obtaining modifications sufficient to match client incomes.

Table 3.17: Challenges in Obtaining Successful Outcomes for Homeowners Ranked by Total Frequency of Either 4 or 5 Scores

Challenges	Level of Seriousness		
	4	5	4+5
Unemployment or reduction in wages leaves borrowers without income to support a modification or refinance.	55	204	259
Slow or no response from servicer.	56	202	258
Inability to speak to the same servicer contact consistently.	54	194	248
Difficulty getting right person at servicer assigned to account.	76	158	234
Servicer failing to confirm receipt of client's authorization for counselor to receive mortgage information.	58	175	233
Servicers' unwillingness to make sufficient loan modifications and forbearance agreements to match borrower resources.	74	142	216
Inability to quickly identify the right person in servicer's office.	62	145	207
Clients not providing documents in a timely way, or withholding essential information.	84	111	195
Lack of emergency assistance/rescue funds.	56	137	193
Servicers had slow response to modification requests because of limited understanding of Pooling and Servicing Agreement requirements.	67	116	183
Decline in house price below loan amount makes any modification, refinancing, or sale difficult.	61	122	183
Loan modifications offered by servicers were not affordable to borrowers.	88	89	177
Servicer unwilling to negotiate any modifications of loans held in a lender's portfolio.	77	100	177
Client came in for counseling too late in the process of foreclosure.	75	97	172
NFMC reporting requirements are too extensive.	73	96	169
Clients fail to follow through with counselor recommendations.	82	78	160
Servicer unwilling to negotiate loan modifications for securitized mortgages.	67	93	160
Counselor has inadequate time for handling the case.	75	80	155
Lack of long-term second mortgage funds which would lower cost for borrower.	51	85	136
Lack of cooperation from second-lien holders in making loan modifications.	60	56	116

Source: Survey of NFMC program Grantees and Sub-grantees.

Strategies to Increase the Effectiveness of Counseling

Respondents were asked to rate a variety of possible strategies for achieving successful counseling outcomes on a scale of 1 (not at all helpful) to 5 (extremely helpful). The 26 strategies, only some of which any given organization may have employed at all, included items about outreach, managing caseload and priorities, conducting counseling and financial education sessions, communicating with servicers, servicer approach to loan modifications, and availability of financial assistance for borrowers (plus opportunity to add “other” strategies).

The top ranked items in terms of frequency of receiving either a 4 or 5 focused on relationships and process with clients (Table 3.18). Topping the list was being frank with clients about their options and managing expectations (261 high ratings). Following closely behind were conducting one-on-one interviews with clients and establishing action plans for borrowers at the first meeting with them. As Table 3.18 shows, several other aspects of counselor work with clients also received high ratings, including helping clients stick to their budgeting/debt management plans and providing information to them in advance of their first meeting with a counselor.

The other type of strategy ranking most highly involved preparing and reacting to loan modification requests for servicers. The two top components were understanding what lender/servicers were looking for in applications and reviewing the proposals from lender/servicers in terms of their workability for clients.

Low on the rankings were various ways of prioritizing clients and the provision of emergency or longer term financial assistance to borrowers. The latter finding leaves open the question whether organizations that did not have access to such funds did not rate the strategy highly very often simply because they had no resources to employ.

It seems potentially important that counseling organizations did not show a high frequency of successful solutions to the two challenges they most frequently designated as highly important: significantly reduced incomes of clients and inability to efficiently communicate (orally and in writing) with appropriate servicer loss mitigation staff. These are areas that may lie outside the ability of single counseling organization or counselors to affect.

Table 3.18: Challenges in Obtaining Successful Outcomes for Homeowners Ranked by Total Frequency of 4 or 5 Score

Strategies	Importance Level		
	4	5	4+5
Being frank with clients	60	201	261
Conducting one-on-one interviews with clients	41	212	253
Establishing an action plan at first meeting	77	166	243
Determining what servicers want included in loan modification request packages	73	167	240
Helping clients stick to budgeting/debt management plans	86	141	227
Analyzing lender/servicer refinance plans	78	132	210
Giving client information before first meeting	39	164	203
Calling lender/servicers with clients present.	74	124	198
Identifying who, at the loan servicer, should be contacted for loan modification requests (e.g., using HOPE Now list)	72	122	194
Prioritizing clients with highest likelihood of foreclosure	69	119	188
Being able to transfer documents to or email with servicers	58	117	175
Conducting in-person or face-to-face outreach.	61	110	171
Providing access to legal assistance, either in house or through partnership	64	104	168
Prioritizing clients needing escalation with lenders	72	75	147
Prioritizing clients with best chances of avoiding foreclosure	79	67	146
Assigning difficult cases to experienced counselors	48	93	141
Conducting targeted outreach to at-risk homeowners or neighborhoods	66	63	129
Conducting group workshops to supplement to one-on-one work	39	79	118
Partnering with a previously established hotline for referrals	48	64	112
Providing or partnering with others to provide emergency funds	31	64	95
Establishing a hotline so that owners can contact your organization directly	31	47	78
Prioritizing clients with least income and assets	36	27	63
Prioritizing clients with lowest levels of financial knowledge	41	17	58
Prioritizing clients from particular neighborhoods or locations	26	17	43
Making counselors available 24/7 or on weekends and evenings	18	18	36
Providing soft-second mortgages (deferred payment, low or no interest) to make payments affordable	12	23	35

Source: Survey of NFMC program Grantees and Sub-grantees.

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APPENDIX E – SECOND WEB SURVEY REPORT

National Foreclosure Mitigation Counseling Program Evaluation

Analysis of Round 2 Web Survey of Grantees and Subgrantees

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2100 M Street, NW

Washington, DC 20037

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Tables

The National Foreclosure Mitigation Counseling (NFMC) program is a special federal appropriation, administered by NeighborWorks® (NW) America, that is designed to support a rapid expansion of foreclosure intervention counseling in response to the nationwide foreclosure crisis. The NFMC program seeks to help homeowners facing foreclosure by providing them with much needed foreclosure prevention and loss mitigation counseling. NW America distributes funds to competitively selected Grantee organizations, who in turn provide the counseling services, either directly or through Subgrantee organizations.

As this is a federal appropriation, NW America must inform Congress and other entities of the NFMC program's progress. The Urban Institute (UI) was selected by NW America to undertake an evaluation of Rounds 1 and 2 of the NFMC program. This report documents the results of a web-based survey of all Round 2 NFMC Grantees and Subgrantees as part of the overall NFMC program evaluation. The survey was designed to collect information on the following topics:

- Grantee perceptions of NW America as the NFMC program administrator;
- The impact of a grant on a recipient organization's capacity to deliver foreclosure counseling services;
- The extent to which client-level reimbursements cover total foreclosure counseling costs;
- The availability of sources of financing for clients to help pay off arrearages or refinance their existing mortgages;
- The obstacles faced by organizations in serving expanded numbers of clients and the mechanisms they employed to meet them; and
- The challenges to obtaining successful outcomes for clients and the strategies used by respondents to increase their ability to help borrowers obtain those positive results.

The preliminary results discussed below are from data collected from the web-based survey, included in the appendix, which was sent to 1,035 email contacts in late September 2010. Data were collected through October 29, 2010. Some email contacts represented more than one organization's name or multiple branches or affiliates of a Subgrantee or Grantee. Of the original 1,035 email contacts, 125 returned as undeliverable and another 17 indicated that they did not receive funding in Round 2. Therefore, the potential number of respondents was 893; a total of 478 respondents completed the survey, which represents a response rate of 54 percent.

Summary of Findings

The responses indicated the following key points:

- About 7 out of 10 of the respondents reported that the Funding Announcement and Award Agreements developed by NW America provided clear guidance about the materials to include in an application and the services that respondents were required to provide with their NFMC program funding. A similar share of respondents reported that material presented by NW America at bidder conferences provided as much clarity as the Funding Announcement.
- Respondents indicated that NW America's methods to communicate with Grantees and Subgrantees (i.e., WebEx sessions and a message board) were helpful in keeping staff informed about best practices.
- NFMC program funds allowed respondents to serve more clients and offer their services in a larger geographic area, compared to the year before receiving their NFMC funding. Respondents who received funding in Round 1 reported that they, on average, served nearly 50 percent as many clients in 2009 compared to 2008. Respondents who did not receive funding in Round 1 served about twice as many clients in 2009 compared to 2008. Without regard to whether a respondent received funding in Round 1, nearly half of the respondents indicated that they increased their coverage area, and about 70 percent indicated that they were able to offer more services with their Round 2 funding.
- Respondents estimated that, on average, the fully-loaded per-client cost to provide Level 1 counseling services was $200; for Level 2 services, $400, $500 for Level 3 services and $450 for Level 4 counseling services. Reimbursements from NFMC were 75 percent of the Level 1 and Level 2 per-client cost and 90 percent of Level 3 per-client costs.
- Although 30 percent of respondents indicated that they had access to some emergency rescue funds, only 3 percent of clients of organizations that had access to such financing received it. About 9 percent of respondents indicated that they offered clients soft-second or reduced cost, first-lien mortgages. However, less than one percent of these respondents' clients received such loans.
- Although 40 percent of respondents offer counseling in areas in which mediation was required, only 5 percent of these organizations' clients entered into mediation in 2009.

- A relatively small share of respondents' clients returned for further counseling because they could not keep up with their repayment plans (10 percent) or modified loans (12 percent).
- The primary obstacle respondents reported confronting in meeting their goals for numbers of clients served was slowness by servicers in processing and decision-making, rated in the top three obstacles by 41 percent of counseling agencies. Next was the problem of clients having already received counseling at the same level from another NFMC Grantee or Subgrantee and thus could not be counted (26 percent). But many respondents reported no obstacle, consistent with the fact that many met their goals. And many highly-rated Round 1 survey obstacles concerning program start-up issues were no longer among the most significant obstacles cited in Round 2.
- Many responding agencies needed to expand capacity to serve their increased foreclosure mitigation clientele. Their main means of accomplishing this was to send existing staff to foreclosure counseling training, with 42 percent rating that approach in their top two, well ahead of new hires (20 percent) or in-house training. Other top strategies involved managing client flow, with triaging for imminent foreclosure and running group clinics.
- Respondents reported facing two principal types of obstacles to obtaining successful outcomes for the their clients: responsiveness of servicers and fundamental economic circumstances of clients. Servicer responsiveness challenges were rated as the most serious, followed by the economic challenges.
- The top three individual challenges were aspects of servicer behavior: slow response or lack of response by servicers to applications for loan modifications, servicers losing documents submitted, and clients' cases being switched from one servicer staff person to another rather than establishing a single contact. Rather than being solved with the passage of time since Round 1, these challenges rose from behind jobs and income issues to the very top, although in both cases by narrow margins.
- The next two highest-rated challenges were about reduced client economic ability to pay a mortgage: loss of a job and insufficient income. It remained difficult to serve clients with sharp income losses (in some cases clients had no current income), although these issues fell from the very top in the Round 1 survey to right behind the worst servicer challenges in Round 2. Declining house prices to levels well below values

were not, on the other hand, rated as a key challenge at least in terms of clients' desire to stay in their homes.

- At the next level down, challenges reverted again to difficulties with servicer process, specifically with the consistency and transparency of servicer decision-making on applications for loan modification or other relief.
- Respondents took a variety of actions within their control to improve outcomes for clients. The highest ranked strategies focused on relationships and working process with clients, especially at the start of counseling. Topping the list was being frank with clients about their options and managing expectations. Following closely behind were conducting one-on-one interviews with clients, establishing action plans for borrowers at the first meeting with them, and requiring that clients bring needed documents with them by not later than their first one-on-one session.
- Four of the next five ranked strategies[1] concern the ways counselors and counseling agencies deliver their services, including providing opportunities for counselors with opportunities to exchange ideas and information and triaging clients to focus first on those with imminent foreclosures. The other type of strategy ranking most highly involved communicating with servicers.
- Among those respondents who identified other strategies besides those specified in the survey, the value of HOPE LoanPort™ was the one by far most frequently mentioned. That system allows secure electronic transfer of documents between counseling agencies and servicers, with immediate confirmation of receipt.
- Unfortunately, many of the strategies to improve outcomes are not focused on the challenges and obstacles considered most serious by counselors, involving servicer practices and economic conditions—circumstances that are largely outside counseling agency control.

[1] A fifth highly-rated service delivery item was triaging clients in ways other than the alternatives the survey provided, but it was noted by only a very few respondents.

Organizational Profile of Respondents

The respondents represented a good mix of organizational types and also NFMC funding channels. Slightly more than a quarter of respondents were NeighborWorks Organizations (NWOs).

Table 1: Type of Respondent Organization

Respondent was a NeighborWorks Organization	Frequency	Percent
No	325	68.0
Yes	133	27.8
Don't Know	20	4.2

Source: Survey of NFMC program Grantees and Subgrantees.

Under the NFMC program, organizations can receive their funding as a Grantee, which means that the organization has an award agreement directly with NW America, or as a Subgrantee. Subgrantees receive their funding from NFMC Grantees. NW America awarded NFMC funds in Round 1 to 134 Grantees, but nearly 800 organizations received NFMC program funding as Subgrantees. Therefore, it is no surprise that 75 percent of respondents were Subgrantees, compared to the 25 percent of respondents that received their NFMC grant as a Grantee. Of Subgrantee respondents, about 40 percent received funds from a HUD-approved Housing Counseling Intermediary; the remaining Subgrantee respondents received funds from a State Housing Finance Agency Grantee.

Table 2: Share of Respondents That Were a Grantee Or Subgrantee

	Frequency	Percent
Grantee	124	74.1
Subgrantee	354	25.9
If Subgrantee, source of funding:		
HUD-approved Housing Counseling Intermediary	159	41.4
State Housing Finance Agency	222	57.8
Don’t Know	3	0.8

Source: Survey of NFMC program Grantees and Subgrantees.

Only those respondents who provided counseling services directly, rather than through Subgrantees, were asked questions about the challenges associated with offering these services. About 80 percent of survey respondents provided counseling services directly to clients.

Table 3: Respondent Provided Foreclosure Counseling Services Directly

	Frequency	Percent
No	92	19
Yes	389	79
Don't Know	9	2

Source: Survey of NFMC program Grantees and Subgrantees.

Overall, respondents provided foreclosure counseling services in 50 out of 55 (91 percent) states and territories. California was served by the greatest number of respondents (24), followed closely by Florida, North Carolina and New York, with 19 respondents in each state. Michigan and Ohio were each served by 19 respondents; the remaining states served by a relatively large number of respondents include Pennsylvania (17), Illinois (16), Georgia and Minnesota (14 each).

Table 4: Top 10 States In Which Respondents Primarily Provided Their Counseling Services

State or Territory	Frequency
California	24
Florida	20
North Carolina	20
New York	20
Michigan	19
Ohio	19
Pennsylvania	17
Illinois	16
Georgia	14
Minnesota	14

Source: Survey of NFMC program Grantees and Subgrantees.

Communication of Applicant and Grantee Expectations

To provide potential applicants with information about the NFMC program and application requirements, NW America held bidder conferences and posted a "Program Funding Announcement and Application Guide" on the organization's website. The survey asked respondents who prepared an application for the Round 2 NFMC program the extent to which they agreed, on a scale of 1 (strongly disagree) to 5 (strongly agree) with statements about the clarity of instructions provided by NW America to complete a NFMC program application.

The responses indicated that the "Program Funding Announcement and Application Guide" provided clear guidance about the application process: about seven in ten of respondents (Table 5) either agreed or strongly agreed that the "Program Funding Announcement and Application Guide" provided clear guidance about the materials to include in the application or the types of services required by Grantees. In addition, the presentations made by NW America at bidder conferences, according to the respondents, provided helpful information about the application process.

Table 5: Mean Response to Questions About the NFMC Program's Application Process

	Mean Response (See note)	Respondents who either agreed or strongly agreed with the statement	
		Frequency	Percent
The NFMC "Program Funding Announcement and Application Guide" provided clear guidance about materials to include in the application.	3.9	142	71.1
The presentation made by NW America at its bidder conferences provided clear guidance about what to include and clear information	3.9	115	69.6
The NFMC Program Funding Announcement provided clear guidance about the types of services required to be delivered by Grantees.	4.0	147	75.2
The presentation made by NeighborWorks America at its bidder conferences offered clear guidance about the types of services required to be delivered by Grantees.	3.9	110	71.8

Source: Survey of NFMC program Grantees and Subgrantees.

Note: Respondents were asked to select, on a scale of 1 (strongly disagree) to 5 (strongly agree) how much they agreed with each statement.

Each Grantee executed a Grant Agreement with NW America. This Agreement included the number of clients that the organization was expected to serve, by level of counseling. About three-quarters of respondents agreed or strongly agreed that Grant Agreements provided clear guidance about the types of services required by the Grantee. NW America, since the NFMC program started, made adjustments to reporting requirements and responded to questions from Grantees and Subgrantees. About six in ten of respondents agreed or strongly agreed that NW America provided clear guidance about reporting requirements under the NFMC program. The same share of respondents agreed or strongly agreed that NW America has provided information in a timely manner since the NFMC program began.

Table 6: Mean Response to Questions About NW America's Post-Award Process

	Mean Response (See note)	Respondents who either agreed or strongly agreed with the statement	
		Frequency	Percent
Your organization's Grant Agreement provided clear guidance about the types of services NeighborWorks America requires you to provide to clients.	4.0	112	75.2
Since receiving our grant, NeighborWorks America staff has provided clear instructions about program activity reporting requirements.	3.8	65	59.6
Since receiving our grant, NeighborWorks America staff has provided answers to our requests for information in a timely manner or, if they did not know the answer right away, they let us know the timeframe during which we would receive a response	3.7	62	58.5
Since receiving our grant, NeighborWorks America staff has provided answers to our requests for information in a timely manner or, if they did not know the answer right away, they let us know the timeframe during which we would receive a response	4.0	66	58.5

Source: Survey of NFMC program Grantees and Subgrantees.

Note: Respondents were asked to select, on a scale of 1 (strongly disagree) to 5 (strongly agree) how much they agreed with each statement.

NW America established a members' website and message board that allows counselors to share questions, best practices and other information with each other. The respondents indicated that these media were helpful, with 44 percent saying that they were either "useful" of "very useful." In addition, NW America held monthly WebEx sessions with NFMC Grantees and Subgrantees and (2) periodic calls regarding Home

Affordable Modification Program (HAMP) guidelines. A majority of respondents indicated that both of these sessions were either "useful" or "very useful."

Table 7: Mean Response to Questions About NW America's Communications Activities With Grantees and Subgrantees

	Mean Response (See note)	Respondents who either responded "useful" or "very useful"	
		Frequency	Percent
How useful have the NFMC members website and message board been in helping your staff do their jobs and obtain successful outcomes	3.4	118	44.2
How useful have the monthly WebEx sessions been in helping your staff do their jobs and obtain successful outcomes for their clients	3.6	118	51.8
To what extent were the information and feedback calls regarding HAMP helpful in understanding the program and serving your clients?	3.7	190	59.7

Source: Survey of NFMC program Grantees and Subgrantees.

Note: Respondents were asked to select, on a scale of 1 (not at all useful) to 5 (very useful) how useful was a particular item.

Respondents were asked, in an open-ended question, to identify changes that would make calls providing information about HAMP more helpful. Most of the respondents indicated that the HAMP calls were helpful in keeping them informed about changes to the program. Many respondents said that the calls could not address the major problem with the program, that servicers continued to be problematic to deal with, and many of the participants on the calls used them to express their frustrations with the program. (See the discussion of HAMP issues reported by respondents later in this report.)

While favorable about the content of the calls, many respondents thought that they could be improved by reducing the number of participants on any one call. Too many participants made it difficult, according to the respondents, for everyone to ask questions, and some participants did not property mute their phones, leading to background noise that made it difficult to hear the presentations. Therefore, respondents suggested that the calls be restricted to participants operating in particular areas, that questions be asked in a webinar format and that the calls' schedules be made available in advance, so that organizations could better plan for participating on the calls.

Counseling Costs

The NFMC program requires Grantees to supplement their award with other sources of funding, and so NFMC grants were not intended to cover all costs associated with providing foreclosure counseling services. Under the program, Grantees receive $150 for counseling Level 1 clients, $300 for Level 2 clients, and $450 for Level 3 clients. Some Grantees received additional Program Related Support, which can be as much as 20 percent of a Grantee's counseling award. Moreover, State Housing Finance Agencies and HUD-approved Housing Counseling Intermediaries could receive additional funds to support operational oversight.

Respondents that provided counseling services directly were asked to estimate the fully-loaded costs to provide each of the four counseling levels. Because there was a wide range of potential costs, depending on the complexity of a given client's case, respondents were asked to estimate the lowest fully-loaded cost, the average fully-loaded cost, and the highest fully-loaded cost for providing foreclosure counseling services to their clients.

Median costs to provide Level 1 counseling ranged from $150 to $300 per client, with a median cost of $200, or one-third greater than the $150 per client reimbursement Grantees received under NFMC. Level 2 counseling services require a Grantee to perform more extensive counseling efforts as compared to Level 1. As a result, the per-client cost for providing Level 2 services, according to respondents, was $400 for an average client, but ranged from $300 for low-cost clients to $600 for higher-cost clients. Grantees received $300 per client for Level 2 services, which was about 75 percent of the reported median cost for providing Level 2 services to an average client. This suggests that Grantees financed a greater share of Level 2 counseling activities from sources other than the per-client reimbursement from the NFMC program

Table 8: Median Estimated Per-Client Fully Loaded Costs For Providing Counseling Services

Counseling Level	Median lowest cost for a client	N	Median cost for an average client	N	Median highest cost for a client	N
Level 1	$150	152	$200	182	$300	151
Level 2	$300	151	$400	142	$600	175
Level 3	$350	101	$500	131	$797	102
Level 4	$300	73	$450	94	$500	72

Source: Survey of NFMC program Grantees and Subgrantees.

Grantees received $450 for Level 3 counseling when they provided all of the services associated with both Level 1 and Level 2 counseling to a single client. The median cost for providing these services, according to the respondents, was $500, but ranged from a low of $350 and a high of nearly $800. The median Level 3 counseling cost was less than the sum of the combined median Level 1 and Level 2 costs. This suggests that Grantees realized some economies of scale when they provided a combination of Level 1 and Level 2 services. As a result, the per-client NFMC reimbursement for Level 3 counseling was 90 percent of the median cost for an average client; this share was greater than Level 1 or Level 2.

The federal Home Affordable Modification Program (HAMP) requires that borrowers who, after receiving a trial loan modification, would have a back-end ratio of 55 percent or more go to counseling as a condition of being eligible to receive program assistance. NFMC Grantees and Subgrantees are among the counseling agencies authorized to provide HAMP counseling, which was classified as Level 4 counseling under the NFMC program. According to respondents, Level 4 counseling costs, for a typical client, $450, but can range from a low of $300 to up to $500 for more complex cases.

Increases in Service Capacity

The NFMC program was designed to increase the capacity of housing counseling organizations to provide foreclosure prevention counseling services in response to higher foreclosure rates. Because 82 percent of Round 2 survey respondents received funding under NFMC in Round 1, we analyzed increases in capacity separately for respondents that received prior NFMC funding and those that did not. As detailed below, both respondents who received funds in Round 1 and those that did not used their Round 2 NFMC funds to increase their foreclosure counseling capacity.

The median number of clients served by respondents who received Round 1 funds increased by 76 percent, from 203 in 2008 to 359 in 2009. Respondents who did not receive Round 1 funds had an even larger increase of 116 percent, from a median of 74 clients served in 2008 to 157 in 2009. These increases in the number of clients served were achieved with relatively small increases in the number of full-time equivalent (FTE) counselors. The median increase for Round 1 recipients was 25 percent (from 2.0 to 2.5 FTEs), while respondents who did not receive funding in Round 1 reported an increase in the median number of counseling FTEs from 1.0 to 2.0.

Table 9: Increase in the Number of Clients Served and Counselor Full-Time Equivalents (FTEs) in 2008 and 2009

	Received Funding in Round 1?	
	Yes	No
Median number of clients (whether funded by the NFMC Program grant or not) to whom the respondent directly provided foreclosure prevention counseling		
2008	203	74
2009	359	157
Median number of foreclosure prevention counselor FTEs employed by respondent		
2008	2.0	1.0
2009	2.5	2.0

Source: Survey of NFMC program Grantees and Subgrantees.

Some of this increase in volume resulted from respondents increasing their coverage area: 46 percent of respondents indicated that they expanded their coverage areas with program funds. It is interesting to note that the same share of respondents who received funding in Round 1 increased their coverage area as respondents who did not receive Round 1 funds. Therefore, respondents who received Round 1 funds were able to expand their services to an even larger area than served in Round 1. The same was true for the types of services offered by respondents. Whether they received funding in Round 1 or not, about two-thirds of respondents indicated that they were able to use Round 2 funding to add services for their clients.

Table 10: Grantees' use of Round 2 funds to increase coverage area and services

	Received Round 1 Grant	Did not receive Round 1 Grant	All respondents
Share of respondents who increased coverage area with Round 2 grant	46.3%	43.3%	45.8%
Share of respondents who added services with Round 2 grant	66.3%	68.9%	66.8%

Source: Survey of NFMC program Grantees and Subgrantees.

Level 4 Counseling

As discussed earlier, HAMP requires borrowers who have a high level of total debt after receiving a trial loan modification to receive counseling. According to a majority of respondents, this counseling (Level 4 counseling under the NFMC program) was helpful to clients: just over half of respondents indicated that Level 4 counseling was "useful" or "very useful."

Counselors, when providing Level 4 services, work with clients to establish a plan to reduce debt levels, increase savings and income.[2] Although related to foreclosure counseling, its emphasis is on a broader range of debt management topics. Nonetheless, respondents said that their staff were adequately trained to offer clients such services: about three in four indicated that their counselors were "equipped" or "very well equipped" to offer Level 4 counseling services.

[2] For a full description of Level 4 counseling, see Housing Counseling Protocol Making Home Affordable Program . http://www.hud.gov/offices/hsg/sfh/hcc/hcprotocol.pdf. Last accessed November 12, 2010.

Table 11: Respondents' Experience Related To Level 4 Counseling

	Mean Response (See note)	Respondents who either responded with a 4 or 5	
		Frequency	Percent
Level 4 counseling is helpful to clients	3.4	130	51.8
Counselors properly equipped to do this primarily debt-counseling work	4.2	263	76.2

Source: Survey of NFMC program Grantees and Subgrantees.

Note: Respondents were asked, regarding the usefulness of Level 4 counseling, to select, on a scale of 1 (not at all useful) to 5 (very useful) how useful was the counseling. For the question regarding counselors' ability to provide Level 4 counseling, respondents were asked to select, on a scale of 1 (not at all equipped) to 5 (very well equipped) how well prepared counselors were to provide these services.

Availability of soft-second and rescue funds

Many loan modifications require that the borrower make a down payment that represents advance payments and/or cures the delinquency. Therefore, the availability of loans or grants that can be made to clients increases the likelihood that they can agree to a loan modification. Unfortunately, a very small share (about nine percent) of respondents can offer such financing to their clients.

Table 12: Respondent Offers Emergency Grant or Loan Assistance to Clients That Allows Them to Bring Mortgages Current or to Undertake a Repayment Plan

	Frequency	Percent
No	345	91.3
Yes	33	8.7

Source: Survey of NFMC program Grantees and Subgrantees.

A median of only six clients among respondents that offered emergency grant or loan assistance received such funding in 2009. The median number of clients served by organizations that offered emergency grants or loans in 2009 was 358; therefore, on average only 2 percent of clients served by organizations that offered emergency grants or loans in 2009 received such financing in that year. It may be that the eligibility requirements for such funding restrict the number of clients who can qualify for rescue funding, or that some clients, even with the funding, do not receive loan modifications.

Table 13: Emergency Grant or Loan Assistance

	Mean	Median	N
Number of homeowners, in calendar year 2009 that received emergency grant or loan assistance from the respondent's organization to allow them to bring their mortgages current or to undertake a repayment plan	37	6	73

Source: Survey of NFMC program Grantees and Subgrantees.

In addition to a loan modification, clients can be helped by programs that make available soft-second mortgages or reduced-cost, first-lien loans that may allow them to refinance their existing mortgage. A relatively large share (when compared to respondents offering emergency grants) of respondents (30 percent) indicated that they could offer their clients soft-second or reduced cost first-lien loans.

Table 14: Respondent Offers Soft-Second or Reduced Cost First-Lien Loans

	Frequency	Percent
No	264	69.9
Yes	114	30.1

Source: Survey of NFMC program Grantees and Subgrantees.

Relatively few clients (a median of 3) served by respondents that offer soft-second or reduced cost, first-lien mortgages received such financing (Table 15). The median number of clients served by respondents who indicated that they offered soft-second or reduced cost, first-lien loans in 2008 was 306. As a result, on average about 3 percent of clients served by respondent organizations that made available soft-second or reduced cost first-lien mortgages received these loans in 2009.

Table 15: Soft-second or Reduced Cost, First-Lien Loans

	Mean	Median	N
Number of homeowners, in calendar year 2009 that received soft-second or reduced cost, first-lien loan from the respondent's organization	8	3	21

Source: Survey of NFMC program Grantees and Subgrantees.

Mediation

In response to the foreclosure crisis, some states or jurisdictions now require, or give borrowers the option to demand, that homeowners and lenders enter into mediation before a foreclosure can be completed. About 40 percent of respondents indicated that they operated in areas with foreclosure mediation requirements. There were a small number of respondents who had a large number of clients that used mediation in 2009; as a result, the average number of clients that entered mediation during 2009 for respondents operating in areas that had such a process was 141, but the median was 16.5 clients. Given that the median number of clients served by respondent organizations that operate in areas with mediation was 358, a relatively small share (5 percent) of clients went into mediation in 2009 in all but a few cases.

Table 16: Number of clients participating in mediation

	Mean	Median	N
Number of homeowners who participated in mediation during calendar year 2009	141	16.5	58

Source: Survey of NFMC program Grantees and Subgrantees.

Return for Additional Counseling

Our quantitative analyses of loan modifications received by NFMC clients indicates that, by the end of December 2009, about one-third of clients who cured a seriously delinquent loan, or a loan already in foreclosure between January 2008 and December 2009 had a loan that either re-entered foreclosure or became seriously delinquent. This suggests the need for follow-up housing counseling services even after homeowners have received permanent loan modifications.

Table 17: Clients Returning for Further Counseling After a Loan Modification or Repayment Plan

	Mean	Median	N
Share of respondent organization's clients who received a loan modification and that returned for further counseling because they had trouble making payments on the loan	17.3	12.0	285
Share of respondent organization’s clients who entered into a repayment plan (but no loan modification) that returned for further counseling because they had trouble making scheduled payments required by the plan	20.7	10.0	261

Source: Survey of NFMC program Grantees and Subgrantees.

Given that, as noted above, about 33 percent of modified loans that cure a delinquency were not current by December 2009, it is perhaps surprising that respondents reported that only about 10 percent of clients who either received a loan modification or entered into a repayment plan returned for counseling. This suggests that clients might benefit from more extensive follow-up with counselors, particularly if they face problems with continuing to make payments on modified loans.

Obstacles Faced in Meeting Counseling Goals

Organizations providing direct counseling were asked to identify up to three obstacles to meeting their counseling production goals (numbers of clients counseled), as distinct from getting positive outcomes for clients (Table 18). From our previous survey, in Round 1 of the program most of the most frequently identified obstacles to achieving anticipated numbers served were start-up challenges. In the current survey, the Round 2 obstacles most often mentioned were principally items related to more mature operations, consistent with the predominance of Grantees and Subgrantees that had also participated in Round 1.

By far the most frequently mentioned obstacle was slowness of servicers in working with counseling agencies and in responding to proposals with decisions, with 41 percent of respondents naming it as among their top 3 concerns. This obstacle was even more commonly mentioned by respondents who had participated in Round 1 as well (48 percent), but even those newly entering the program in Round 2 also mentioned it most frequently (31 percent).

Table 18: Obstacles to Reaching Goals for Numbers of Clients Served, Ranked According to Percentage of Counseling Agencies Designating Them in Top Three

Obstacle	Percentage
Slow servicer response	40.8
Couldn't get credit after client received counseling from another Grantee	25.9
No obstacles	18.4
Borrowers interested in monetary assistance	15.3
Modification of management systems to accommodate NFMC	13.1
Delays in program start-up/funds arrival	8.6
More time needed for outreach	8.2
More time needed to train	8.0
Goals too high or low	6.9
Staff turnover	6.7
Continuing work with Round 1 clients	5.3
Not enough demand for counseling services	4.7
More time needed to hire	2.9
Too much demand for counseling services	2.5
Other	8.0
Don’t Know/NA	1.6

Source: Survey of NFMC program Grantees and Subgrantees.

The second most mentioned obstacle to meeting counseling production goals (26 percent) was agencies not being credited with services delivered to homeowners who had already previously received counseling from others under NFMC before seeking further help. This item is linked to the NFMC cost reimbursement system that allows only one payment for providing a given level of counseling to a particular homeowner. It was already a significant issue in Round 1 as well. But Round 2 agencies that participated in both rounds considered this issue important more often than did Round 2 newcomers.

The third highest rated response was that respondents faced no major obstacles preventing them from reaching goals for numbers of homeowners counseled (18 percent). This is consistent with large numbers of agencies meeting those goals. As we shall see later, many of the agencies nonetheless faced important challenges in obtaining the positive outcomes they sought for their clients, notwithstanding the efficiency in serving large numbers of homeowners.

Fourth in this diverse list was the issue that some clients came looking only for direct financial assistance, which, as we have seen earlier in this report, is very often unavailable from the counseling agencies themselves (15 percent). This item also was highly ranked in Round 1.

Only at fifth through eighth highest rated obstacles did start-up types of issues arise, including modifying management systems (client tracking, data reporting) to meet NFMC program requirements, delays in program start-up (contracts and funding), time to train additional counselors, and time for building up outreach to potential clients. As we anticipated in reporting web survey results for Round 1, these obstacles, having been addressed by counseling agencies and NeighborWorks in Round 1 of NFMC, were not as important as barriers in Round 2. As it turned out, that proved about equally true for returning Round 1 participants and those entering NFMC for the first time in Round 2.

Respondents writing in other obstacles besides those presented in the survey referred principally to funding issues. They highlighted the inadequacy of program payment levels to pay for needed staff additions and other costs, slowness of payment for their services, and inability to get reimbursed for assisting returning clients with new problems.

Strategies Used to Increase Capacity

Survey respondents were asked to indicate the two most important ways they expanded their organizational capacity to handle increased client flow (Table 19). The most frequently cited method was to send existing staff to training to learn to handle foreclosure work (42 percent of respondents). Well back in second place was hiring additional counselors (20 percent). The mechanisms cited third and fourth most often, triaging clients at intake and using group client clinics to do initial intake and move clients forward on collecting documents, involve managing client load rather than adding qualified personnel. The other strategies with double-digit frequencies were split between adding capacity, having experienced senior staff train other counselors in foreclosure mitigation, and being more efficient with available capacity by designating separate intake staff and phone lines to allow counselors to focus on counseling. For the most part, however, NFMC service providers could not accommodate the increase in foreclosure mitigation counseling services with existing staff and systems. Many organizations had to train staff for new functions, modify or augment their operations, or hire new staff to meet the increased demand for services.

Table 19: Capacity Building Approaches to Serving Increased Numbers of Clients, Ranking According to Percentages Designating Them in Top Two

Capacity-building responses	Frequency
Sending existing staff to training	41.8
Hiring additional staff	20.4
Establishing caseload triage system	17.1
Holding group clinics	15.7
Having experienced senior-level staff train lower-level staff	15.3
Designating intake staff and phone lines	13.3
Taking advantage of temporary/volunteer work	7.8
Partnerships	7.3
Using NFMC's e-learning course	6.3
Using improved means to reach clients	4.7
Don't Know/NA	2.2

Source: Survey of NFMC program Grantees and Subgrantees.

Challenges to Achieving Successful Outcomes

Ultimately more important than meeting goals for numbers of clients served or units of counseling provided was obtaining positive outcomes for homeowners assisted. We asked survey respondents about the principal challenges they faced in obtaining such outcomes (avoiding foreclosure, curing delinquency, etc.). Respondents rated each of the items provided as possibilities on a 1 to 5 scale, with 5 meaning an "extremely serious" challenge. Twenty-four challenges were specified, grouped in four categories: 7 were economic (e.g. borrower loss of job), 4 were client behavior (e.g. wait too long before coming to counseling); 10 were servicer behavior (e.g. losing documents submitted by borrower); and the remaining 3 related to counseling organization capacity (e.g. staff overload).[3] The list of 24 potential challenges was based on responses received from the previous Round 1 survey of NFMC counseling agencies; on quarterly narrative reports from Rounds 1 and 2 in which agencies enumerate different challenges that they were facing; and on case study site visits to selected Round 1 counseling agencies.

[3] Note that the numbers of challenges counseling agencies were asked to rate differed by category, with the most challenges (10 out of 24) in the servicer group. This works two ways for servicer challenges. It offers more items that could be rated serious (or non-serious). At the same time, by breaking practices into separate and narrowly specific issues, it may make each individual challenge seem less serious to the agencies doing the rating. We, therefore, do not expect that having different numbers of challenges across categories significantly biases the results for or against a particular set of issues.

Based on the web survey responses, we ranked the challenges in two different ways to identify better those that were most serious: (1) challenges with the highest average score on the 1-to-5 scale and (2) challenges with the highest percentage rated by the agencies as level 5 (very serious). Results for all rated obstacles in terms of mean rating and percent rated a 5 were reported in Table 20, sequenced from highest to lowest mean.

Primary challenges represented two dimensions of the counseling process and environment: (1) the responsiveness of servicers and (2) the basic economics of homeowners' ability to afford their mortgage payments. Servicer responsiveness challenges were rated as the most serious, followed by the economic challenges.

The top three challenges in terms of both average severity and frequency of level 5 ratings were aspects of servicer behavior: slow response or lack of response by servicers to applications for loan modifications, servicers losing documents submitted, and clients' cases being switched from one servicer staff person to another rather than providing a single contact and reviewer for a given case. Rather than being solved with the passage of time since Round 1, these challenges rose from behind jobs and income issues to the very top, although in both cases by narrow margins.

The next two highest rated challenges were about reduced client economic ability to pay a mortgage: loss of a job and insufficient income.[4] It remained difficult to serve clients with sharp income losses (in some cases clients had no current income), although these issues fell from the very top in the Round 1 survey to right behind the worst servicer challenges in Round 2. HAMP may have helped to provide options for reduced-income though generally not jobless households (at least not by the end of 2009).

The next three challenges, according to counseling respondents, all concern the decision-making standards and processes used by servicers. Tied for the sixth most important challenge were clients being turned down for HAMP modifications, even when they met payments during their temporary modifications, and servicers' unwillingness to offer adequate modification or forbearance opportunities to fit homeowner needs. Eighth was a lack of clear and transparent standards by which servicers determine what if any workout solution was offered.

[4] Loss of a job was tied for third highest, with the changing servicer staff issue, in mean rating; but it was less frequently rated a 5.

Table 20: Challenges in Obtaining Successful Outcomes for Homeowners, Ranked by Mean Scores (1-5 Scale)

Challenge Ranking	Challenge Category	Challenge	Mean Rating	Percentage of Respondents Selecting a 5 (Very Serious) Ranking
1	Servicer	Service response slow or none	4.77	81
2	Servicer	Servicer losing documents	4.70	77
3	Servicer	Servicer staff person changed	4.66	78
4	Economic	Client loss of job	4.66	73
5	Economic	Inadequate income	4.53	65
6	Servicer	Denied permanent HAMP modifications though met temporary modification requirements	4.42	62
7	Servicer	Inadequate modification or forbearance	4.42	59
8	Servicer	Decision standards not clear or transparent	4.40	57
9	Servicer	Servicer lacks knowledge of pooling and servicing agreements (PSAs)	4.32	53
10	Servicer	Denied HAMP aid though eligible	4.29	55
11	Servicer	Declined modifications of portfolio loans	4.29	55
12	Servicer	Declined modifications of securitized loans	4.26	56
13	Client	Client comes too late in default process	4.14	47
14	Economic	Lack of emergency assistance funds refinance not feasible	4.09	52
15	Economic	Lowered housing prices make	4.07	46
16	Client	Clients don't supply needed documents	3.93	37
17	Other	Counseling staff overloaded	3.92	40
18	Client	Clients don't follow thru on action plans	3.92	34
19	Economic	Lack cooperation from 2nd lien holder	3.83	38
20	Other	Inadequate counselor time for follow-up	3.82	38
21	Economic	Lowered housing prices discourages clients from continuing as owners	3.77	37
22	Client	Clients are confused about HAMP	3.76	30
23	Economic	Lack of soft 2nd mortgage funds	3.75	38
24	Other	Too much time reporting on program	3.46	26

Source: Survey of NFMC Grantees and Subgrantees.

Generally, challenges related to issues of client participation and cooperation and to those of counseling agency organization were rated relatively lower in seriousness. The highest ranked problem with clients was their coming to counseling so late in their default process that they were hard to help (13th).[5] The highest for the respondents' own organizations was overload of staff (17th).

Interestingly, according to counseling agency respondents, decline of housing prices leading to clients discouraged from taking action to save their homes from foreclosure was one of the least serious obstacles to successful outcomes (21st of 24), albeit still among issues considered to be significant.

Strategies to Increase the Effectiveness of Counseling

Respondents were asked to rate a variety of possible strategies for achieving successful counseling outcomes on a scale of 1 (not at all helpful) to 5 (extremely helpful). The 36 strategies, only some of which any given organization may have employed at all,[6] included items about outreach, managing caseload and priorities, conducting counseling and financial education sessions, dealing with servicers, servicer approach to loan modifications, and availability of financial assistance for borrowers (plus opportunity to add "other" strategies).

We assessed the helpfulness of the various strategies by their mean score among respondents and by the percentage of respondents who rated them a 5. We also noted the number of respondents providing some rating for a given strategy and the strategies which many people said were not applicable, in order to assure that we did not misstate the importance of strategies with great import to a few people.

The top ranked items in terms of mean rating focused on relationships and working process with clients, especially at the start of counseling (Table 21 contains all ratings in order of mean score). Topping the list, with an average score of 4.74, was being frank with clients about their options and managing expectations. Following closely behind were conducting one-on-one interviews with clients, establishing action plans for borrowers at the first meeting with them, and requiring that clients bring needed documents with them by not later than their first one-on-one session. These four strategies had the highest percentage of ratings of "extremely helpful" as well, and the first three were the same items rated highest in our Round 1 web survey.

Four of the next five ranked strategies[7] concern the ways counselors and counseling agencies deliver their services, including providing opportunities for

[5] This low ranking was somewhat at odds with the findings of our program impact modeling, which strongly highlights the importance of coming to counseling before obtaining a loan modification.

[6] As with all other survey questions, respondents had the option to reply "don't know/no opinion" when asked about specific strategies.

[7] A fifth high-rated service delivery item was triaging clients in ways other than the alternatives the survey provided, but it was noted by only a very few respondents.

counselors with opportunities to exchange ideas and information and triaging clients to focus first on those with imminent foreclosures. The other type of strategy ranking most highly involved communicating with servicers: understanding what lender/servicers were looking for in applications, persistence in following up with servicers, phoning servicers in 3-way calls with clients present, and transferring documents to servicers by email. Among those respondents who identified other strategies besides those specified in the survey, the value of HOPE LoanPort™ was by far the most frequently mentioned. HOPE LoanPort™ allows secure electronic transfer of documents between counseling agencies and servicers, with immediate confirmation of receipt. Among the “other strategies” mentioned, LoanPort™ was followed by further ways to efficiently send documents to and from servicers and confirm their arrival.

Lower in respondents’ rankings of helpfulness were strategies involving some aspects of interacting with servicers that reflect key obstacles and challenges highlighted in previous sections of the report. These included identifying the right contact person at the servicer and getting servicers to establish specific negotiating staff. This is somewhat surprising given the importance given to servicers’ lack of responsiveness and switching staff responsible for individual cases in other parts of the survey. Perhaps counseling agencies were saying their efforts to do these things did not bear very much fruit and were therefore not extremely helpful, even though they were attempts to address important problems that remained at or near the top of their list of challenges.

Low on the rankings of strategies were various ways of prioritizing clients other than by immediacy of the threat of foreclosure. Also ranked relatively low was the provision of emergency or longer term financial assistance to borrowers. The latter finding leaves open the question whether organizations that did not have access to such funds did not rate the strategy highly very often simply because they had no resources to employ. Both emergency and longer-term financial assistance were rated at any of the 1 to 5 levels by relatively few respondents, suggesting that lack of funds may have indeed contributed to the lower scores for those who did rate them. Earlier we saw that agencies that did offer such funds provided them to only small percentages of their clients, which may further reflect a lack of resources.

It seems important that counseling organizations did not show a high frequency of very helpful solutions to the two challenges they most frequently designated as highly important: significantly reduced incomes of clients and inability to efficiently communicate (orally and in writing) with appropriate servicer loss mitigation staff. These are areas that may lie outside the ability of single counseling organizations or their counselors to affect and necessarily depend on action at other levels of policymaking and program. Efforts like HOPE LoanPort™ that are pursued nationally and serve many counseling agencies and servicers fit in that category. Certainly the various elements of HAMP and Making Homes Affordable may help offset reduced incomes for some homeowners.

Table 21: Strategies Contributing to Obtaining Good Outcomes for Clients

Strategy	Mean Response	Percentage of Respondents Ranking Strategy as 5 (Very Important)	Percentage of Respondents Providing Any Ranking	Large Share of n/a Responses*	Strategy Category
Being frank w/clients and managing expectations	4.74	78	80		Client-specific
One-to-one interviews	4.67	74	80		Client-specific
Create action plan at 1st meeting	4.52	66	80		Client-specific
Require bringing docs to 1st 1:1 meeting (or before)	4.46	68	71		Client-specific
Provide counselors with info/idea exchange opportunities	4.39	54	75		Service delivery
Determine what to include in loan mod application	4.32	55	79		Bldg relationship w/servicer
Triage: imminent foreclosure	4.30	49	71		Service delivery
Provide checklist of docs to bring to 1st meeting	4.29	55	74		Service delivery
Triage: other	4.26	65	7		Service delivery
Persistence in follow-up with servicers	4.26	54	79		Service delivery
Get client buy-in and taking responsibility	4.23	50	79		Client-specific
Phoning servicer in 3-way with client	4.22	53	76		Client-specific
Being able to transfer docs to servicer by email	4.21	55	74		Bldg relationship w/servicer
Create budget and debt mgmt plans matching action plans	4.19	44	79		Client-specific
Create and follow crisis budget	4.17	44	80		Client-specific
In-person/face-to-face contact	4.15	50	71		Outreach
Escalate hard cases to more experienced counselor	4.14	47	58	X	Service delivery
Identifying servicers' escalation contact	4.08	49	72		Bldg relationship w/servicer
Triage: needing escalation w/ lenders	4.06	41	68		Service delivery
Identifying and using mechanisms to verify and confirm transfer of documents	4.06	50	73		Bldg relationship w/servicer
Access to legal assistance	4.01	45	73		Client-specific
Triage: best chance to avoid foreclosure	3.99	37	64		Service delivery
Identifying right servicer contact person	3.99	44	77		Bldg relationship w/servicer
Target to at-risk clients and low-income locations	3.77	32	64	X	Outreach
Encourage more HH members' employment	3.71	30	76		Client-specific

Table 21 (cont'd): Strategies Contributing to Obtaining Good Outcomes for Clients

Strategy	Mean Response	Percentage of Respondents Ranking Strategy as 5 (Very Important)	Percentage of Respondents Providing Any Ranking	Large Share of n/a Responses*	Strategy Category
Triage: clients w/ least fin knowledge	3.65	29	58	x	Service delivery
Set up hotline to your offices	3.64	35	37	x	Outreach
Provide emergency assist toward payment	3.61	37	44	x	Client-specific
Triage: least income and assets	3.59	24	60		Service delivery
Getting servicers to establish negotiation staff	3.59	39	52	x	Bldg relationship w/servicer
Assigning 1 counselor to 1 servicer's borrowers	3.58	35	40	x	Bldg relationship w/servicer
Partner with existing hotline	3.57	33	55	x	Outreach
Use of workshops prior to or add to 1:1 meetings	3.52	33	59	x	Service delivery
Use of fairs and other events	3.41	27	60	x	Outreach
Triage: clients from particular locations	3.35	19	51	x	Service delivery
Provide soft second mortgages	3.34	29	32		Client-specific

Source: Web survey of Grantees and Subgrantees

* Over 70 of respondents indicated that the strategy was not applicable to them, presumably because they did not use it or have access to it.

Conclusions

The web survey results presented in this report represents the experiences of nearly 500 Round 2 NFMC organizations operating on the "front lines" of the foreclosure crisis. The information provided by these organizations indicates that the NFMC program provides a much-needed source of funding for foreclosure prevention counseling. Respondents estimated that the per-client reimbursement covers between 75 and 90 percent (depending on the level of counseling) of the costs to serve a typical client. Moreover, respondents seemed pleased with NeighborWorks' management of the NFMC program.

NFMC funding allowed organizations to increase their capacity to serve more clients, provide a wider range of foreclosure counseling services, and increase their geographic coverage area. This was true even for organizations that received NFMC funding in Round 1.

Unfortunately, even three years into the foreclosure crisis, respondents found that issues related to servicers remain the chief obstacles to achieving good outcomes for their clients. Although the industry has increased its capacity to process loan modification requests, including implementing technologies that allow for more efficient document transfers, respondents said that servicers continued to take inordinate amounts of time to decide on loan modification requests, lost documents, and denied modification requests made under the HAMP program without adequate explanation or valid reasons.

The recession, with its attendant increases in unemployment and declines in income and house prices, has also created major challenges for clients served by respondents' organizations. Even these issues, according to respondents, were slightly less problematic than servicer-related challenges. Given the combination of servicer challenges and economic issues resulting from the recession, respondents indicated that it was critical to work closely with their clients to provide realistic assessments of potential solutions and their likely prospects and to move aggressively forward to action as soon as clients come in the door. However, further action by servicers and public policymakers, on the key issues mainly outside the control of counseling organizations, could be very important in improving homeowner outcomes that counselors can help to produce.

APPENDIX F – FIRST CASE STUDY REPORT

National Foreclosure Mitigation Counseling Program Evaluation

Case Study Report #1

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May 12, 2009

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UI project no. 08295-000-04

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EXECUTIVE SUMMARY

The National Foreclosure Mitigation Counseling (NFMC) program is a special federal appropriation, administered by NeighborWorks® (NW) America, that is designed to support a rapid expansion of foreclosure intervention counseling in response to the nationwide subprime foreclosure crisis. As this is a federal appropriation, NW America must inform Congress and other entities of the NFMC program's progress. The Urban Institute (UI) was selected by NW America to undertake a two-year evaluation of the NFMC program.

This Case Study Report #1 presents write-ups of two pilot case studies: Consumer Credit Counseling Services of Delaware Valley (CCCSDV), which is located in Philadelphia and Neighborhood Housing Services (NHS) of Chicago. The purposes of these case studies were to collect information, through in-depth interviews about the methods used by NFMC program grant recipients to provide foreclosure counseling services and about challenges associated with (1) increasing grant recipients' scale of counseling services and (2) providing successful foreclosure counseling services to clients. In addition, the case studies provide information about strategies used by NFMC program grant recipients to address these challenges.

The two pilot case study organizations were selected because they served a relatively large number of clients early into the NFMC program. In addition, both organizations have a strong track record of providing foreclosure counseling services in the past and have the ability to make available rescue funds and/or refinance mortgages to their clients. Most of the information presented in the case studies was collected through semi-structured interviews with the case study organizations' staff and other stakeholders, which were conducted in-person during the course of a two-day site visit. In addition, the case study organizations provided contact information for and introductions to five of their clients. We have interviewed two clients of CCCSDV and will shortly be interviewing two from NHS of Chicago as well. The following bullets summarize the major findings for each case study:

Consumer Credit Counseling Services of Delaware Valley

- CCCSDV used its Round 1 NFMC grant to increase the organization's capacity to provide foreclosure counseling services. The organization hired 13 new housing counselors in 2008 and opened five satellite offices in the Philadelphia area. To minimize rent costs, CCCSDV shares space with local social service providers in three of its new five satellite offices, which reduces costs by about $25,000 per year.

- Because CCCSDV increased its counseling staff by 13 in 2008, it created a new training curriculum and required that new hires complete a four-week classroom training class before starting to provide foreclosure counseling services to clients. This new training method allowed the organization to place a relatively large number of counselors on-line within a short timeframe.

- CCCSDV uses Debt Management System (DMS) software to track client-level information. This software is licensed as part of a cooperative agreement between counseling agencies and Cooperative Processing Resources (CPR), a software provider. Because of the cooperative arrangement, CPR modified DMS to allow CCCSDV to report client-level data required under its NFMC program grant at no cost to the organization.

- To increase its outreach efforts, CCCSDV has an engagement with Radian Guaranty, a mortgage insurance company, under which CCCSDV counselors attempt to contact 2,000 people whose mortgage is guaranteed by Radian Guaranty and are at risk of becoming delinquent. This engagement allows CCCSDV to provide foreclosure prevention counseling services to people who otherwise may not seek such help.

- All people who contact CCCSDV are scheduled for a 1-on-1, in-person foreclosure counseling session. Before coming to the initial session (which typically takes two hours), clients are sent an appointment packet that informs the clients about all of the paperwork to bring to the session and also requests that the client complete budget and personal balance sheet forms.

- CCCSDV counselors, to ensure that they are able to get through to lenders' and servicers' loss mitigation departments, maintain a list of contact name and phone numbers for loss mitigation staff at most lenders and servicers. This list is updated as needed and circulated among all of CCCSDV's counselors.

- CCCSDV counselors, during initial counseling sessions, contact a client's loan servicer by phone while the client is in the counselor's office. With the information provided by the client, the counselor can begin negotiating loan modifications or forbearance agreements with the servicer during the call.

- CCCSDV clients are provided an action plan at then end of the initial counseling session, which has specific "next-steps" for clients, such as a deadline for sending the servicer any needed follow-up information.

- CCCDV counselors frequently follow-up with clients to ensure that clients are completing action plan items. Clients often schedule follow-up sessions with counselors as their circumstances change.

- The experiences of the two clients interviewed for this study demonstrate the challenges faced by counselors when trying to achieve successful outcomes. Both clients on their own were told by their loan servicer that they could not be helped, even though each client had lost income and had medical bills. CCCSDV counselors in each case were able to contact the client's loan servicer and initiate a process to modify the client's loan. Neither client, however, has received final approval from his/her servicer. Moreover, both clients have been told frequently by their servicers that paperwork has not been received (even when an application was sent by certified mail, return receipt), which has delayed the review process. As of May 2009 both clients are current on their mortgage, but may not be able to remain so if they do not receive a modified loan.

NHS of Chicago

- NHS has a long history as an innovator in foreclosure prevention and mitigation, as an organization that very early recognized the growing mortgage default problem in Chicago in the later 1990s. It pioneered, with lender/servicer and public partners, in creating a coordinated approach to foreclosure prevention, labeled the Homeownership Preservation Initiative (HOPI).
- NHS concentrates its work in 9 target neighborhoods where it maintains offices and does counseling at its central office as well as those sites; but it serves all of Chicago and beyond in response to contacts.
- NHS used its NFMC grant to fund 5 new counseling positions to help handle the growth in volume of clients that had spurted (for a second time) in 2007 and continued to grow to about 2,500 in 2008. It was able to draw on foundation grants to help with other elements of capacity building and restructuring to respond to the workload.

- NHS had used a decentralized intake system leading directly from initial intake to one-on-one counseling sessions but found it inefficient for NFMC reporting and for expanding scale of operation. Major recent changes are to equip intake operators to obtain and share more information, to follow up on completing all intake information collection and interview scheduling in a central office, and to have all clients wanting individual counseling first complete a workshop explaining foreclosure issues and options.

- Very large numbers of additional borrowers have contacted NHS of Chicago since President Obama's Making Home Affordable plan was announced. The organization was just about to hold the first of what may become a series of "fix-your-mortgage" events, expecting to attract 1,000 or more homeowners on a single day and to submit mortgage modification applications for many of them that very day.

- Counselors emphasize providing one-on-one counseling that gives the borrower realistic expectations from the start, works with the borrower to develop an accurate budget and use it to construct a loan modification proposal, submits all needed documents at once, and contacts the servicer together whenever feasible. Counselors feel they need to be aggressive with the servicer, to insist on talking to loss mitigation staff and receiving attention to the homeowner's circumstances, not a scripted formulaic response to a modification proposal.
- NHS counselors highlight difficulty in basic communications with servicers as a central issue. Identifying the right people to talk to was especially challenging early on; documents are lost after transmission; servicer staff are inaccessible by phone, poorly trained, and inconsistent; and it is very hard to speak to the same person consistently on a case. NHS does the best it can to take advantage of its relationships with lender/servicers built up over time but that by no means works consistently. Persistent follow-up is very important. NHS uses Best Fit software to try to communicate more information securely on the Internet, but only a minority of lenders use it, limiting its value.
- Lender/servicers often offer repayment schedules/plans rather than modifications. These are generally worthless to the borrowers, who NHS feels would have already been making their payments if they could afford these arrangements.
- The other prime obstacle is that many borrowers have such limited incomes and high housing debt service to income ratios that they cannot afford their mortgage even with a significant loan modification. These are a mixture of households: some who couldn't afford the home to begin with or once teaser rates expired, others who lost income, seniors led by aggressive lenders to take on too much debt, and more.
- NHS of Chicago has access to both emergency rescue funds and long-term financing. Even with these tools it feels it has been able to serve about 20 percent of borrowers contacting them—most by obtaining loan modifications and some with their HOPI refinancing funds supplied on excellent terms by a consortium of lenders. Their analysis says they may be able to raise that to 50-55 percent under the Obama plan, but the success level is very much subject to lender/servicers willingness to make the modifications the plan outlines.

I. CONSUMER CREDIT COUNSELING SERVICES OF DELAWARE VALLEY

Established in 1966, Consumer Credit Counseling Services of Delaware Valley (CCCSDV) is a 501(c)3 organization that provides a wide range of financial education and counseling services to clients across the Philadelphia region. The organization is a member of the National Foundation for Credit Counseling (NFCC), which is a national organization that, according to its website, "…promotes the national agenda for financially responsible behavior and builds capacity for its Members to deliver the highest quality financial education and counseling services. The NFCC is the nation's largest and longest serving national nonprofit credit counseling network, with more than 100 Member agencies and nearly 850 offices in communities throughout the country."[1]

CCCSDV started its efforts to address the Philadelphia-area's delinquency problem in 2004, when it worked with the US Attorney's Office and the Delaware County Anti- Predatory Lending Group to develop a program which addresses predatory lending. This program has been delivered to 1,696 residents in the organization's coverage area since it began in 2004.

CCCSDV offers a number of housing-related counseling services, related to pre-purchase, pre-rent, bankruptcy, reverse mortgage and foreclosure prevention. Overall, in 2008 CCCSDV provided housing-related counseling services to 8,721 clients, up from 3,842 clients in 2007. Located in 15 offices, with a main office in center city Philadelphia, CCCSDV now has a $4.4 million budget and employs 33 full-time counselors. The organization, in Round 1, received about $800,000 in NFMC funds as a Subgrantee to the Pennsylvania Housing Finance Agency (PHFA) and the National Foundation for Credit Counseling. In Round 2 CCCSDV received NFMC awards of about $1.4 million from both of these sources.

CCCSDV applied for NFMC funds as part of an organization-wide effort to increase its capacity so that it could better respond to higher levels of demand for its services. The organization has a good working relationship with the PHFA, and is a member organization of NFCC. As a result, management decided to apply for NFMC funds (in both rounds) as a Subgrantee to both PHFA and NFCC. CCCSDV benefits from the services provided by the grantees, including training opportunities and promotional materials developed and paid for by the PHFA and NFCC that helps to publicize CCCSDV and raise awareness among Philadelphia-area residents about its counseling services.

[1] http://www.nfcc.org/about/index.cfm

NFMC funding allowed CCCSDV to increase its presence in the region: the organization opened five satellite offices (which contain between 1 and 3 counselors) in the Philadelphia area between June 2008 and April 2009. Moreover, CCCSDV hired 13 additional full-time counselors between May 2008 and December 2008, and is looking to hire three additional full-time counselors. This increase in capacity allowed CCCSDV to meet its proposed 2008 NFMC counseling volume goals, and so did not require an extension to its contract. In fact, CCCSDV exceeded its 2008 target because some PHFA subgrantees were not able to meet their 2008 targets, and PHFA did not request an extension for its Round 1 contract. As a result, PHFA made available additional funds to CCCSDV so that all of PHFA Round 1 counseling funds could be used before December 2008; the organization provides only Level 3 counseling under NFMC.

As detailed below, CCCSDV provides all of housing-related counseling services through 1-on-1, in-person sessions. This counseling method has not changed even though demand for such services has increased dramatically since 2006. The overall strategy used by CCCSDV to meet the increased demand for housing-related counseling services was to hire more counselors, so that the organization had the capacity to provide the same level on intensive 1-on-1 services to more people. Because the organization had a strong management team with a background in operations management, CCCSDV was able to grow its capacity without any major delays or problems. Through its activities, CCCSDV's counselors estimate that they are able to secure forbearance from the client's servicer for about 40 percent of clients, and about 25 percent of clients may, after the initial forbearance period, be able to qualify for a loan modification. Most of the loan modifications reduce a loan's interest rate, very few loan modifications result in a principal reduction.

Practices for NFMC Program Service Delivery

This section describes the process used by CCCSDV to deliver foreclosure prevention counseling services. It begins with sourcing, then describes intake and then details CCCSDV's counseling practices.

<u>Sourcing</u>

There are a number of ways that CCCSDV clients learn about organization's housing counseling services. The organization participates in a range of community outreach events, which are typically scheduled for the Spring at which CCCSDV staffs a booth that has information about the organization. In addition, CCCSDV, in partnership with local television channels, operates a call bank. The television station runs the organization's phone number on the screen, and CCCSDV staff field calls during the broadcast.

As discussed later in this case study, CCCSDV opened some of its satellite offices in space shared with social service providers, such as Catholic Services, United Way and Bucks County Opportunity Council. These organizations provide referrals to CCCSDV, as their clients may come in for a non-housing related reason, but the social service agency staff member recommends that the person may benefit from foreclosure prevention counseling. The referrals go in both directions, as CCCSDV counselors may recommend that a client seek services from the social service agency.

CCCS also receives referrals from recipients of Act 91 notices. These notices are sent to homeowners whose lender has initiated a foreclosure. The notice tells recipients that they may be eligible for a loan under the State of Pennsylvania's Homeowner's Emergency Mortgage Assistance Program (HEMAP), which provides loans to eligible borrowers so that they can cure a delinquency. All Act 91 notice recipients are provided contact information for a housing counseling agency in their county.

The City of Philadelphia, as part of its Residential Foreclosure Diversion Program (the Diversion Program) that was established in April 2008[2] has a hotline that residents can call to discuss foreclosure prevention options. CCCSDV receives referrals from the hotline who contact the organization to schedule an appointment.

Legal assistance organizations received funding in Round 2; CCCSDV is now receiving an increased number of referrals from these legal assistance grant recipients. Even more recently, CCCSDV has received referrals from servicers and lenders participating in the new Making Home Affordable program. Under the program, a lender/servicer refers a borrower who has a back-end ratio in excess of 55 percent for counseling; lender/servicers have started referring clients to CCCSDV, and this volume is expect to increase as more owners seek loan modifications under the program.

CCCSDV uses two more outreach efforts, but these services are not funded by NFMC. The first program was initiated by Radian Guaranty (Radian), a Philadelphia-based mortgage insurance company, which engaged CCCSDV to perform early delinquency counseling for clients whose mortgage is insured by the company. Under the terms of the engagement, Radian provides CCCSDV with a list of 2,000 delinquent borrowers each month. CCCSDV is required to make six attempts to contact each borrower, and once they contact the borrower, CCCSDV counselors provide moderate counseling, which consists of at least a 30-minute counseling session in which the counselor and the client will discuss the following:

- CCCSDVs' role emphasizing that its housing specialists will be available to a client free of charge for as long as he/she remains in the home;
- Review and explain to the client what he/she may expect to occur should the client not respond to calls and letters from their mortgage servicer;

[2] A full discussion of the Diversion Program is presented in Section 8 of this case study.

- Review importance of communication with the mortgage servicer, particularly keeping the servicer ware of any difficulties with making mortgage payments;
- Suggest to the client that he/she create a budget and begin to track and prioritize all expenses and that the house payment should be made first before unsecured debt;
- Discuss of concept of home equity and the importance of its preservation when appropriate.

Clients that engage in loss mitigation counseling, a more intensive process, will complete a full budget and a loss mitigation package that is delivered to the mortgage servicer. The loss mitigation session will include the following:

- Preparing a cash flow and full budget analysis, making suggestions for expense reduction or/and increasing income where indicated;
- Reviewing and explaining immediate default remedy options and alternatives that may be available to the homeowner including repayment plans, loan modification, deed in lieu of foreclosure, pre-foreclosure sale and discuss the pros and cons of each option.

For all clients served under the Radian engagement, CCCSDV prepares a loss mitigation package and forwards it to the mortgage servicer; this package includes a summary of client income, an itemized budget, a personal balance sheet, a copy of the client action plan prepared with the counselor and hardship or circumstance information from the client. In 2008 CCCSDV completed 2,089counseling sessions with borrowers contacted through this engagement.

CCCSDV, in a second non-NFMC program funded initiative, operates the Saving Homes, Saving Neighborhoods initiative with The Reinvestment Fund (TRF), a Philadelphia-based community development financial institution. Under this program, which started in the Fall of 2008, TRF used foreclosure data provided by the City of Philadelphia to identify two neighborhoods (Southwest Philadelphia and West Oak Lane that are at risk of increasing levels of foreclosure activity. CCCSDV has two counselors assigned to these neighborhoods that work with community organizations to publicize the availability of foreclosure prevention counseling. Area residents can receive counseling services from CCCSDV staff either in their homes or in local community group offices.

Intake

All clients contact CCCSDV through an 800 number. After an automated screen, callers are routed to a customer service representative (CSR). CCCSDV has 10 full-time CSRs, up from 6 two years ago. CSRs answer calls from between 8:00 and 6:15, Monday through

Thursday and from 9:00-4:45 on Friday.[3] According to CSRs, many people do not call in for foreclosure prevention counseling. Some clients call in about credit card debt or some other financial crisis. According to CSRs, many callers are too embarrassed to request foreclosure counseling right away, or may be more focused on a non-housing related credit issue. As a result, CSRs ask every caller about whether he/she owns a home and, if the caller is a homeowner, if the mortgage is current. For callers who have a delinquent loan, the CSR may suggest that the caller come in for foreclosure counseling, which will include general credit counseling.

During the call, in addition to asking about a caller's mortgage status (if the caller is a homeowner), CSRs request that the caller provide their name, address, email (if any) and type of counseling service requested into a Debt Management Solutions (DMS), the database system that CCCSDV uses to track the status of all of its clients. After entering a caller's information into DMS, CSRs schedule an appointment for the caller. It is important to note that every caller is scheduled for an in-person counseling session. CSRs do not triage callers; instead, CSRs discuss the types of services available from counselors and encourage callers to attend a counseling session.

DMS, based on the caller's zip code entered into the system by the CSR, shows the next available appointment for the three closest locations to the caller's home zip code. The CSR, however, may suggest that the caller consider an earlier appointment at another location; in addition, some callers request that a session be scheduled at a location that is nearer to his/her workplace. Most appointments are scheduled for a date that is within two weeks of the call.

All clients are sent an appointment packet either by mail or email. The appointment packet has information about CCCSDV and details the information that the client should bring to the initial counseling session. In addition the application packet requests that the client complete monthly budget, monthly income and a personal balance sheet forms in advance of the counseling session, and bring these forms to the session. The CSR tells the client what the application packet will include, before ending the call. CSRs said that intake calls typically take between 10 and 30 minutes. Oftentimes callers are anxious about their financial problems, and the intake calls can be very emotional for the caller. CSRs do not try and hurry a caller; rather, they provide sufficient time for a caller to tell the CSR the reasons for calling CCCSDV.

Counseling

The next step in the process for CCCSDV clients is to attend a 1-on-1, in-person counseling session. These sessions are scheduled for two hours, and each counselor has between 2 and 3 appointments per day. Counseling sessions are scheduled for between 9:00

[3] The 9:00 start on Friday allows CSRs to attend a weekly staff meeting.

AM and 7:00 PM, Monday through Friday and 8:00 AM through 3:00 PM on Saturdays. In addition to seeing clients in person, counselors make calls as part of the Radian engagement, discussed earlier.

A session usually starts with the counselor verifying the information provided by the client in his/her application packet. Counselors pull credit reports for every client in order to determine if there are any debts not reported by the client in the application packet. Counselor said that some clients fail to report other properties that clients may own, or recent big-ticket purchases (such as a car) that may influence a servicer's decision about a requested loan modification. Therefore, counselors believe that it is critical to have as complete a picture of the client's financial circumstances as possible, and the information on a client's credit report is the best way to obtain such information.

Once the income, expense, asset and liability information is verified, the counselor developed a crisis budget with the client that minimizes expenses. The counselor also works with the client to develop potential sources of additional income. Based on a realistic projection of income and expenses, the counselor then reviews potential options with the client, which may include a combination of retention options (loan modifications, repayment plans and forbearance) and non-retention plans (short-sale or deed in lieu).

The counselors stressed that it is critical to be up-front with client about their situation and available solutions. For example, many servicers, according to counselors, require that a property be listed for sale for a period of time (it may be as long as six months) combined with a hardship letter before considering a short sale. Some clients who prefer a short-sale option may not meet these criteria, and so the counselor would have to discuss other available alternatives. In every case the counselor develops a retention option (usually a loan modification with a reduced interest rate) that includes an affordable payment, given the client's budget before contacting the servicer. In addition, for clients that are eligible for a HEMAP loan, the counselor completes an application with information provided by the client.

The counselor calls the client's servicer after verifying all of the information provided by the client and having reviewed potential options with the client. CCCSDV's counselors said that they have phone numbers for contacts in nearly every loan servicer's loss mitigation department. This list is updated by counselors as they encounter new servicers, or if a loan servicer reorganizes itself; counselors send each other updated contact information for servicers via email and also share this information at weekly staff meetings.

None of the CCCSDV counselors said that they could never get through to a loss mitigation person. In some cases the counselor, with the client waiting, will be on hold for more than 30 minutes. Counselors did say that servicers have increased their capacity to field calls. Last summer, according to a counselor, some servicers had overseas call centers that were staffed by people reading from scripts, and were not helpful. In these cases the counselors would for a supervisor or request to be transferred to the loss mitigation department. In fact, one counselor knows the location (Dallas) of a major servicer's Advocacy Team, which is responsible for receiving telephone requests for loan modifications, and is able to get through with very little waiting time.

In most cases the counselor gets through to the servicer's loss mitigation representative during the two-hour session. There is a range of approaches across CCCSDV's counselors. Some approach the loss mitigation representative by reviewing the client's payment history and then ask, "what options do you offer to allow the client to complete a workout package and cure his/her delinquency." This approach allows the servicer to respond with an initial offer, which the counselor may think is not reasonable. If this is the case, counselors will start to negotiate with the servicer's loss mitigation representative to generate a loan modification or repayment plan that is feasible, given the client's financial situation.

Although some servicers tell the counselors that they cannot take information over the phone, CCCSDV counselors said that they are able to determine a feasible retention solution for at least 40 percent of their clients. This solution may be forbearance or a repayment plan, but it oftentimes is coupled with a loan modification. However, counselors stress to their clients that any solutions proposed by the servicer's loss mitigation representative over the phone is not final; the servicer can only make a final decision once it has received all of the required information from the client.

After completing the initial all with the servicer's representative, the counselor completes an action plan for the client. The action plan provides the client with specific instructions and dates for follow-up activities, which often include a deadline for sending the required materials to the servicer. If a client brings all of the required information to the initial counseling session, then the counselor can send the information to the servicer on behalf of the client.

However, counselors stressed that clients must take ownership of their case even if the counselor submits all of the information after the initial counseling session to the servicer. There are inevitable requests by the servicer for updated information, and the client will usually have to respond to these requests, and so must know where and how to send information to the servicer.

Clients, once their initial counseling session is over are asked to complete a counseling exit survey, which asks clients to rate the services that they received from the counselor, the primary concern for the client when he/she visited CCCSDV that day, what took place during the session and what items are most important on the client's action plan. These data are analyzed on a quarterly basis and reported to counselors and CCCSDV's senior management.

Many clients return for follow-up counseling after the initial two-hour session. For example, clients whose HEMAP applications are denied (only about 20 percent of HEMAP loan applications are approved) return to explore other options or to file an appeal of their denial. Sometimes clients return to discuss the loan modification proposed by the servicer, based on the information provided after the initial counseling session. CCCSDV, under NFMC Round 1's grant could not bill for these sessions (the session was coded as a Level 3 counseling unit and used by CCCSDV to request payment from either PHA or NFCC).

Other clients, who live in Philadelphia return to CCCSDV once they receive notice that their case has been sent to the Diversion Program. This notice informs the owner that he/she should apply for a HEMAP loan and, to do so, contact a housing counseling agency. Some of these clients already received services from CCCSDV. For these clients a CCCSDV counselor completes a proposal, which outlines terms of a loan modification that is affordable, given the owner's financial circumstances and sends the proposal to the servicer's attorney no later than 10 days before the scheduled conference. Diversion Program hearings take place every Thursday, and a CCCSDV counselor goes to the court house and handles every CCCSDV client's case. This usually requires that the CCCSDV counselor, with the client, discuss potential options with the servicer's attorney. The CCCSDV counselor usually negotiates on behalf of 15-20 clients out of a total of about 200 cases on any week's docket.

Based on the CCCSDV counselor's experience with the Diversion Program, only 2-3 cases per week that the counselor negotiates cannot be finalized with the servicer's attorney and so must be settled by a judge *pro tem* (JPT). The most frequent outcome (in about 70 percent of the cases) is that the servicer's attorney agrees to a loan modification; the remaining 30 percent of the cases are equally likely to result in a non-retention solution (a short sale or deed-in-lieu) or a foreclosure. Foreclosures, according to CCCSDV counselors, typically are for clients who did not bring information to the hearing or did not comply with any of the notices sent to him/her in the past.

Effective Strategies in Increasing Scale of Service Delivery

The proposed increase in foreclosure prevention counseling services under NFMC required CCCSDV to address three major challenges: (1) recruiting and training additional counselors; (2) increasing the number of CCCSDV satellite offices; and (3) altering CCCSDV's data management system so that it could upload data on clients served into Housing Counselor Online (HCO), the system used by the PHFA to meet NFMC reporting requirements. The following discussion details the strategies used by CCCSDV to meet each challenge.

Recruiting and Training Additional Counselors

CCCSDV recruited all of its additional 13 counselors hired since NFMC started by placing advertisements in local newspapers and on websites. When evaluating applicants, CCCSDV looks for people who have previous experience either in banking or in providing financial counseling services for other social service agencies. One counselor hired under NFMC relocated from another CCCS in Florida and two counselors already worked for CCCSDV as non-housing counselors.

Once hired, all counselors receive 4 weeks of classroom-only training that is led by CCCSDV senior staff and other counselors. CCCSDV counselors do not specialize in one type of housing-related counseling. Therefore, the purpose of the organization's new hire training is to provide information to each new hire that will allow them to do all of the housing counseling services offered by CCCSDV to its clients.

CCCSDV developed the classroom curriculum and the materials distributed during the classroom training. (CCCSDV is now using materials adapted from NeighborWorks training manuals.) In the classroom training counselors receive learn about all of the housing-The classroom training After 4 weeks of classroom training, recent hires are partnered with a senior counselor who the trainee observes for about two weeks. Based on the recent hire's past experience in providing housing counseling before joining CCCSDV, after six weeks the person is given either a partial (less than 30 appointments in a week) or full calendar or counseling appointments, which is generally about 30 appointments in a week.

The classroom training was instituted by CCCSDV to accommodate the large number of trainers hired under the NFMC program. Previously, CCCSDV would have no more than one new hire to train at a time, and so the person would be trained by working with a senior counselor for four weeks. Because CCCSDV hired 13 counselors under the NFMC program, it was not feasible for multiple people to be partnered with a senior trainer. As a solution, CCCSDV implemented its classroom training program that required staff to develop training materials and take on teaching responsibilities.

Increasing the Number of CCCSDV Satellite Offices

Prior to receiving NFMC program funds, CCCSDV had a main office in Center City Philadelphia and ten satellite offices located in the region. Because clients provide zip codes, and these data are entered by CRS staff into the organization's data collection system, staff could analyze the areas served by CCCSDV. Based on this analysis, CCCSDV determined that it needed to increase its geographic footprint in the region, especially in areas that required foreclosure prevention services.

Based on its analysis of clients' zip codes, CCCSDV opened five new satellite offices between June 2008 and April 2009 offices in Morristown, North Philadelphia, Salem, Chester PA and Springfield. The Morristown site was selected because of the relatively small number of clients coming from that community, even though the organization perceived a need to serve the town.

CCCSDV estimated that market-rate rents for space required to house between 1 and 3 counselors at each of the five new satellite sites ranged from between $700-$900 per month. This would increase the organization's expenses by about $50,000 per year, and require CCCSDV to enter into long-term leases for commercial space. To reduce these risks, CCCSDV partnered with local social services agencies in North Philadelphia (Casa de Carmen), Salem (United Way) and Springfield (Catholic Services). At these three sites CCCSDV pays nominal rent (about $100 per month, which is accounted for as a donation to the partner organization) which saves CCCSDV about $25,000 year, and does not require the organization to sign a long-term lease at those sites. In addition, as discussed earlier, the partner social services organizations are a source of referrals to CCCSDV in those three communities.

Altering CCCSDV's Data Management System to Allow for Interface with Housing Counselor Online (HCO)

CCCSDV uses Debt Management System (DMS) software for tracking client production process flow and for recording client-level data. This software system was developed (and is changed, periodically) by Cooperative Processing Resources (CPR), which is an association that is owned by a cooperative membership consisting of credit counseling agencies. CPR's primary function is the maintenance and technical support of the DMS and the development of new technology to support its mission. CCCSDV purchases DMS licenses for its computers as part of a 50-member cooperative of NFCC organizations.[4]

PHA requires that its subgrantees under NFMC report client-level data through Home Counselor Online, which is a software solution made available by Fannie Mae to collect client-level information. Fannie Mae paid for the costs associated with allowing DMS to upload data directly into HCO, and so PHA's data reporting requirements could be met by CCCSDV with little expense. The key for CCCSDV is that they use software as part of a cooperative, and so the organization can request that CPR make changes that improve DMS's functionality; these improvements are shared by all NFCC organizations that have a license to use DMS. By being a member of the cooperative, CCCSDV does not need to have its own software development staff; this function is performed by CPR.

Strategies Best Able to Prevent Foreclosures

CCCSDV's strategy to help people avoid foreclosure is to provide intensive 1-on-1 in-person counseling to clients who bring as much of the required information as possible to the first counseling session. Therefore, hiring a sufficient number of counselors so that the organization can schedule appointments with clients no later than two weeks after they contact the organization is a crucial strategy used by CCCSDV to help people avoid foreclosure. In addition, CCCSDV only contacts a client's servicer once it has all of the information that it needs to determine a realistic budget. Therefore, CCCSDV sends each client an application packet that details the types of information that he/she should bring to the session. According to a client interviewed for this study, it takes about a day to gather all of the information and complete the forms included in the application packet.

[4] CCCSDV pays about $1,000 per year per computer for the license to use DMS.

Completing the application packet is one step that CCCSDV uses as part of its strategy to get the client to take ownership of the foreclosure prevention process. Although CCCSDV's counselors contact a client's servicer during the initial counseling session, the client may have to complete follow-up tasks in order to get a loan modification approval from a lender. Moreover, some follow-up items require a client to contact other parties, such as utility providers and social service agencies. It is much more likely, according to CCCSDV counselors that clients will follow-through with these activities if they have bought into the process relatively early.

CCCSDV, however, realizes that it is difficult for clients to know what steps to take once the initial counseling session is over. Therefore, every client receives a detailed action plan that provides clients with a "road map" of next steps. Most times a client has to send additional information to a loan servicer. Therefore, action plans include the servicer's fax number and include instructions that the client should include his/her name, address and loan number on every page of every fax. In addition, some action plans include having the client request a constant payment amount from utility companies so that a spike in utility usage doesn't create a problem for the owner. The action plan provides clients with dates for each item, so that the counselor can follow-up and determine the client's progress in complying with the action plan.

The above strategies relate to how CCCSDV works with its clients. In addition, the organization's counselors use specific tactics when dealing with loan servicers to increase the changes of receiving a successful resolution of a client's case. In particular, CCCSDV counselors ensure that they have up-to-date contact information for loss mitigation departments of all major servicers by sharing this information with each other, as discussed earlier via email and at weekly staff meetings.

Beyond having correct contact information, some CCCSDV counselors have changed their approach when first contacting a client's loan servicer. In the past, counselors often asked a servicer's representative, after reviewing a client's situation, "what can you do for me?" Increasingly, some servicers responded by saying, "nothing" because the servicer representative said, the investor's wouldn't allow it or that the servicer had no program to accommodate any loan modifications. As a result, some counselors are now suggesting a modification to the servicer early in the phone-call, and so would say to the servicer's representative, "given the borrower's financial situation, we think that the borrower can afford an interest rate of x." Some counselors have found this more proactive approach helpful in dealing with servicers.

However, counselors who still ask the servicer what can be done have developed strategies to handle problem servicers. For example, counselors now ask for the investor name in cases where the servicer says that a loan modification is not possible because of investor guidelines. The counselor will then contact the investor directly and ask if it prohibits loan modifications. Once the counselor receives confirmation that the investor in fact allows loan modifications, he/she will call back the servicer and inform the servicer's representative that loan modifications are allowed by the investor.

Counselors oftentimes do not speak to the same person in a servicer's loss mitigation department. As a result, a counselor may receive conflicting information about the eligibility of a particular client for a loan modification. To handle this situation, counselors now take the name and contact information of each person that they speak with in a servicer's loss mitigation department. This allows the counselor to respond to a servicer's representative who says that a deal is not possible to say, "I spoke with Ms. so-and-so yesterday and she said that it was possible, so can you go and double check?" This increases the changes that the counselor will receive consistent decisions from different servicer representatives.

Finally, counselors, because they have developed a realistic budget with the client before contacting the servicer, can push back when they receive a proposal from the servicer that is not realistic. In such cases a counselor would say to the servicer's representative, "your proposal is not realistic. This borrower cannot afford that payment, and needs it reduced to x." By taking this approach, counselors are able to reduce the likelihood that the loan modification will be unaffordable to the client.

Strategies Best Able to Mitigate Losses

CCCSDV counselors, after reviewing a client's financial information always contact the servicer to request a loan modification or forbearance. Counselors indicated, however, that retention options, in which the owner stays in his/her home are always feasible, particularly if the owner has little or no income or cash available for a down payment required by the servicer for the loan modification. For some clients, then, the best solution is a non-retention option in which the owner executes either a short sale or a deed-in-lieu. Both of these non-retention options are preferable to a foreclosure.

For the most part, CCCSDV counselors said that clients come into counseling with a preference for retention options. In other words, most clients do not want to sell their home, and are not immediately prepared to accept the possibility of a non-retention option. Therefore, counselors pursue retention options first, and allow clients to come to a realization that it is not feasible to retain their home because they do not have sufficient income to afford even a modified mortgage. This process can take time, as clients have to go through, as one counselor put it, a "mourning period" for the loss of their home.

Of course, not every client who wants to pursue a non-retention option may do so immediately. As discussed earlier, servicers have requirements that must be met before agreeing to a non-retention option. These requirements usually include a listing period (which may be as long as six months) and, in most cases, a hardship letter than explains the reasons for the client wanting to sell the home.

Counselors negotiate with servicers to receive waivers from servicers to allow non-retention options for clients who may not meet the servicer's requirements for such a solution. As a result, CCCSDV counselors have received approval from servicers to allow a short sale before the required listing time expires. In addition, CCCSDV counselors have successfully negotiated deed-in-lieu sales for clients whose home has been listed for a Sheriff's sale because the owner's children are in school, and so a foreclosure would mean that the owner's children could not finish the year in their school. In these circumstances servicers have agreed to delay a Sheriff sale and allow time for the deed-in-lieu transaction to be completed.

A CCCSDV client's experience with a loan servicer

The Harper's (not the family's real name) refinanced their mortgage in 2006 to take cash out to pay-off credit card debt that the family accumulated, in part to help pay for medical expenses that they incurred without insurance. The mortgage they took out was a 3/27 ARM that was due to reset in April 2009. After taking out the mortgage, Mr. Harper was diagnosed with cancer. Ms. Harper to help her husband, could not spend as much time running her business. As a result, her business failed, and she incurred business debt and the family could not keep up with their mortgage payments. Mr. and Ms. Harper contacted their loan's servicer, but were not offered any forbearance or loan modification. According to Ms. Harper, the servicer representatives said that the family had to make payments, and did not care about the family's reasons for falling behind on their mortgage.

The family received an Act 91 notice in October 2008; at the time the family's mortgage was 60 days delinquent. The Act 91 notice provided contact information for agencies that provide counseling, and the Harpers contacted CCCSDV, which was located nearby to their home. The Harper's first appointment with CCCSDV was scheduled within a week of contacting the agency. The Harpers received an appointment packet, and took the information to the first counseling session. The counselor reviewed their financial information, and discussed several options with the family, including selling the home and for Ms. Harper to file for personal bankruptcy. In addition, the counselor contacted the family's loan servicer, who told the counselor that the family may be eligible for a loan modification program, and could access the forms to complete on the company's website.

The counselor could not find the forms on the website, and instructed that the Harper's download the forms, complete and submit them to the servicer. It took the Harpers a few days to find the forms on the servicer's website-apparently they were not available when the counselor initially contacted the servicer. The Harpers completed the application and faxed all of the information to the servicer (The application and supporting information was 28 pages.) A week later Mr. Harper called up the servicer; a representative said that the servicer never received the application. Mr. Harper next mailed the application and followed-up with the CCCSDV counselor, who suggested that the family apply for the State of Pennsylvania's HEMAP program. This application and supporting information was 58 pages, and the counselor reviewed the application before sending it to the Pennsylvania HFA for underwriting.

The Harper's HEMAP application was denied, and returned to CCCSDV for further counseling. The counselor suggested that the family send the HEMAP package to their servicer to support a loan modification request. The Harper's sent the application in by certified mail, which required the recipient to sign when the package was delivered. Even though the Harper's received an acknowledgement that the package was received, a servicer's representative, when contacted by Mr. Harper indicated that the servicer had not received the package. The Harpers returned to their counselor, who suggested that the family apply for the State of Pennsylvania's HERO program. The family applied for a HERO loan in January 2009 and has not yet heard about their application. In the meantime, Ms. Harper started work, and the family is now current on their mortgage. They hope that their HERO loan application is approved. Their ARM is due to reset, and the interest rate will increase from 7.75 percent to 11 percent in May 2009.

Most Important Challenges Faced in Foreclosure Counseling Work

Many of the most critical challenges faced by CCCSDV staff when providing counseling have already been discussed. Counselors indicated that clients often do not follow-up on action plan items. One counselor said that clients seem enthusiastic at the initial counseling session, but then fails to provide the servicer with the information needed to approve a loan modification. As an example, this counselor has a client who needs to send his/her servicer updated pay information, as the initial session was completed in January 2009. As of May 2009 the client had not sent his/her servicer the required information, and so the servicer cannot make a final decision regarding the requested loan modification.

To address this problem, counselors frequently follow-up with their clients, and monitor clients' progress in completing action plan tasks. Moreover, counselors scan all of the information that clients bring to the initial counseling session, so they are able to email documents to servicers if they are lost. However, some items must be updated, and clients must send them to servicers. Counselors, as discussed earlier, try to get a client's buy-in at the first 1-on-1 session to increase the likelihood the client will provide information in response to a servicer's requests.

Loan modifications usually require that an owner provide a down payment, which could consist of advance payments of the new loan. Unfortunately, many clients do not have the cash-on-hand to make such a payment. In fact, clients tell counselors that if they had the down payment, they wouldn't be behind on their mortgage. In these cases, counselors will still submit all of the information to the servicer that is required to make a decision about the loan modification. In the meantime, counselors work with clients to develop a budget that will allow the client to save enough money, or increase their income through additional work to make the down payment once the loan modification is approved by the lender.

Counselors indicated that senior citizens, who are often on a fixed income, are usually unable to increase their income by working. Many of these clients received high interest home improvement loans, and are unable to afford the payments. For these clients, counselors develop strategies to reduce expenses. These strategies may include referrals to other social service agencies that can enroll the client in programs that subsidize prescription drug costs or food banks that can provide the client free or reduced groceries.

Counselors also discussed challenges when they deal with a client's servicer. Some servicers would not consider a loan modification or forbearance request unless the client was delinquent on his/her mortgage. In these cases clients would come into counseling saying that they are about to lose their job, and want to receive forbearance in advance of a drop in income. Unfortunately, some servicers would say that they had no programs to accommodate current borrowers. This has changed, as counselors indicated that more servicers are approving forbearance agreements with client who are current on their mortgage. In many cases the forbearance requires a nominal monthly payment and, if the client makes these payments, will be considered for a loan modification.

The challenges of providing successful foreclosure counseling: a client's experience with CCCSDV.

Robert (the client's name has been changed), who is now CCCSDV client, demonstrates both the benefits of for foreclosure counseling and challenges that make it difficult to achieve successful outcomes. Robert and his wife earned a combined six-figure salary as recently as a year ago. Unfortunately, Robert was laid-off from his information technology job in 2008 and his wife had to stop working for health-related reasons. The family's insurance was not sufficient to cover Robert's wife's medical bills, and so the couple took out a second mortgage. Robert, however, did not want to take too much equity out of the property, and so the combined loan-to-value ratio of both mortgages did not exceed 80 percent.

Robert attempted to call his lender to ask for forbearance as he continued his job search. After many attempts, he finally reached a representative of his lender by telephone. This representative told Robert that he was not eligible for and programs because he was current on his mortgage. The lender's representative told Robert to call back when he was 90 days delinquent; until such time he was, according to Robert, "not on the lender's radar screen."

Robert contacted a local elected official, who provided him a list of counseling agencies in the Philadelphia area. Robert contacted CCCSDV and, within a week met with a counselor. The counselor called the lender's representative and, unlike the person Robert spoke with on his own, informed Robert that he was eligible for forbearance and, possibly, a loan modification. Since that initial session, however, Robert has been provided conflicting information from the lender, which has recently informed him that he is no longer eligible for forbearance, and had to resubmit his loan modification application because of the requirements of the new Homeowner Affordability and Stability Program. Due to this confusion, Robert has scheduled a follow-up session with his CCCSDV counselor, who has been in contact during the entire process. Although Robert may receive a loan modification, he has not yet heard about his request for forbearance.

Robert is still out of work, and his wife recently accepted a job that pays minimum wage. It will be difficult for Robert to afford the payments for the modified loan proposed by the lender, which will have a 5.1 percent interest rate instead of the current 5.5 percent interest rate. Unfortunately, even with the help of CCCSDV, without some forbearance (Robert is requesting six months), his family may not be able to remain in their home.

Many servicers now require that clients input information directly into their websites in order to process loan modification and forbearance requests. For some clients this allows for an easier way to send data to a servicer, as compared to faxing information that can be lost by the servicer. Some clients, however, do not have internet access at home, and so must go to a library or some other location that provide internet access.

Another problem identified by counselors is that servicers change their loan modification and forbearance program requirement without notice. As a result, a client may submit information for a particular program, only to be told by the servicer that the program no longer exists, and the client must submit different information to be considered for the new program. This problem has increased under the recently enacted Homeowner Stability Plan, under which servicers and receive funds from the federal government for loan modifications that decrease an owner's monthly payment to 31 percent of his/her monthly income. (See the discussion of a client's experience with CCCSDV, above.) [5]

According to counselors, servicers are requesting additional information for loan modification requests already submitted before the Housing Stability Plan was enacted, thereby creating burdens for clients. A CCCSDV client interviewed for this study said that this happened to him. He submitted information to his servicer to request a loan modification in mid-April 2009. When he called to enquire about the status of this application, he was told by the servicer's representative that the loan modification plan to which he applied was discontinued, and his materials were sent to another department that processed requests for Housing Stability Plan modification requests. The client contacted a servicer's representative in that department, who said that the client had to submit additional information; in particular, the servicer required that the client submit updated information about the family's income, as loan modifications made under the Housing Stability Plan must be in relation to an applicant's income. The client submitted the information in mid-April, and has yet to hear back from the servicer, as of early May 2009.

Clients who receive loan modifications often have only three days, from the date of the letter sent by the servicer, to respond with down payment funds and signed paperwork that indicates the client agrees to the terms of the loan modification. Counselors advise that their clients review the terms of the loan modifications with the counselor before sending information back to the servicer. As a practical matter, though, clients do not have sufficient time to see their counselor, as they often have to overnight mail their down payment check and signed agreement to the servicer to meet the three-day deadline. This results in clients not fully understanding their loan modification, which may affect the sustainability of these loans in the future.

[5] For more information, see Homeowner Affordability and Stability Plan Fact Sheet http://www.treas.gov/initiatives/eesa/homeowner-affordability-plan/FactSheet.pdf.

Availability of Emergency Rescue Funds

Act 91 of 1983 authorized PHFA to develop the Homeowners' Emergency Mortgage Assistance Program (HEMAP) to help certain homeowners who were in danger of losing their homes to foreclosure. HEMAP prevents mortgage foreclosures resulting from defaults caused by circumstances beyond a homeowner's control. It provides loans to bring delinquent mortgage payments current and may also provide continuing help with mortgage payments. Total assistance cannot exceed 24 months.

Pennsylvania homeowners, who become 60 days or more delinquent, before foreclosing, must receive from their lender an "Act 91" Notice that informs the homeowner of the HEMAP program and directions on how to apply. After receiving the Notice, a homeowner has 30 days to have a face-to-face meeting with a consumer credit counseling agency, which then has 30 days from that date to get the application to PHFA. Eighty-four counseling agencies throughout the state provide this service.

Counseling agencies are under contract with PHFA to prepare applications for HEMAP loans. Their job is to help homeowners present the most complete and accurate applications regarding their financial circumstances. They also counsel homeowners on financial matters and spending habits and often serve as negotiators between homeowners, mortgage lenders and other creditors in forbearance negotiations. Upon receipt of the application, the Agency has 60 days to render a decision of eligibility. If an application is made in a timely manner, mortgagors are required to halt any foreclosure action until PHFA has rendered a decision.

The following eligibility criteria must be met to obtain HEMAP loan assistance:

- Homeowners must be at least 60 days delinquent on at least one of their mortgages. If a homeowner has more than one mortgage, not all mortgages need to be delinquent. However, no more than two mortgages can receive HEMAP assistance.
- The home must be located in Pennsylvania and the homeowner must reside in the home.
- The home must be a one or two-family residence.
- By statute, mortgage loans insured by the Federal Housing Administration under Title II of the National Housing Act are not eligible.
- HEMAP loans cannot exceed $60,000 or 24 months of payments.
- HEMAP loans can be in no worse than a third lien position.
- Homeowners must be suffering financial hardship due to circumstances beyond their control which renders them unable to correct the delinquency within a

reasonable period of time--loss of employment from layoffs or plant closings, serious medical problems and spousal abandonment are typical circumstances.

- Homeowners must be able to demonstrate that they have a reasonable prospect of resuming normal mortgage payments within 24 months and paying off the mortgage by maturity. Job skills, employment history, efforts at retraining, etc., are all relevant factors that the Agency will consider in determining whether there is a reasonable prospect of applicants' being able to resume making full mortgage payments within 24 months.

If approved, a homeowner can receive up to 24 months of loan disbursements. Mortgage payments are made by HEMAP directly to the lender on the homeowner's behalf. PHFA assistance is in the form of a mortgage loan. The HEMAP interest rate is statutorily set at nine percent. However, interest does not accrue until the homeowner is financially able to start repayment based on a formula established by statute.

If denied a HEMAP loan, the homeowner has 15 days to appeal the decision. This appeal process is not part of the law but rather was instituted by the Agency to provide applicants with a second opportunity to resolve misunderstandings. A lender may continue the foreclosure action during the appeal process.[6] About 15,000 HEMAP loans are originated each year; [7] the funding comes for HEMAP loans comes from an appropriations of the Pennsylvania state legislature, who approved about $15 million in funding in the most recent fiscal year.

According to CCCSDV staff, only about 20 percent of HEMAP applications are approved because many clients who are delinquent on their mortgage do not meet the eligibility criteria, presented above. In particular, many CCCSDV clients cannot satisfy the HEMAP requirements (1) that the delinquency is beyond the client's control and/or (2) the client can demonstrate the possibility of making regular mortgage payments after the HEMAP loan cures the delinquency. Clients who receive a HEMAP loan may still need to have their mortgaged modified, as the program only addresses the client's arrearage. In general, CCCSDV counselors thought that HEMAP was a good option for some clients, but could not be relied on to help all clients. As a result, applying to for a HEMAP loan is part of a multi-pronged approach, which includes contacting the servicer and asking for forbearance or a loan modification used by counselors for their clients.

[6] Brian A. Hudson, Sr., Executive Director & CEO Pennsylvania Housing Finance Agency before the Banking, Housing and Urban Affairs Committee of the Senate of the United States, April 7, 2008. http://banking.senate.gov/public/_files/OpgStmtHudsonBankingTestimonyFinal04072008DoubleSpaced.pdf.

[7] Statement of Ira J. Goldstein. The Reinvestment Fund. April 7, 2008 http://www.trfund.com/about/newsletters/Spring%202008/Statement-Ira-Goldstein-TRF.pdf.

Availability of Long-Term Assistance Funds

The State of Pennsylvania initiated two program: Homeowners' Equity Recovery Opportunity Loan Program (HERO) and the Refinance to an Affordable Loan Program (REAL). Both programs, started in the Summer of 2007 provide opportunities for Pennsylvania residents to refinance their existing mortgage.

HERO

The HERO program provides for up to 100 percent financing but, instead of refinancing an owner's current mortgage into a new loan, the PHA purchases the owner's existing loan from the current lender and then modifies the loan so that the payment is affordable to the owner. This program is for owners who are not eligible for the REAL program (see below) or another mortgage refinance product available in the general market due to credit issues or owing more than your home's current appraised value. Funding for the HERO program is limited. Loans are reviewed by PHFA on a case-by-case basis as funding levels permit.

The following eligibility criteria must be satisfied to qualify for a HERO loan:

- The combined gross annual income of all borrowers may not exceed $120,000. This limit may be waived based upon individual circumstances for individuals not served by a loan product available in the general marketplace.
- The owner must demonstrate that he/she made an effort to meet your financial obligations to the best of your ability.
- The owner must have sufficient and stable income to support timely repayment of the HERO loan in regular, monthly installments. (All borrowers must agree to make monthly mortgage payments by automatic payment directly from your bank account.)
- The mortgaged property is the owner's permanent residence.
- If the owner has stopped making your mortgage payments, he/she must be able to account for the cash flow by showing how the owner escrowed, saved, or redirected those funds.
- The HERO loan must be in first lien position.

CCCSDV counselors said that they used the HERO program more early last year than now. The reason is that lenders are more likely to agree to a loan modification that has the same (or lower) payments than the PHA would provide once it purchased the loan from the client's lender.

REAL

Under the REAL program, borrowers can receive a new mortgage in an amount that is up to 100 percent of an owner's home's value based upon a current appraisal (or 95 percent for borrowers with a credit score below 620). The REAL loan may be used to finance items such as subordinate mortgages, closing costs, prepayment penalties, delinquent property taxes, and arrearages that have occurred within the past 12 months after the loan reset to a higher monthly payment amount. To qualify for such a loan, the owner must meet the following eligibility criteria:

- The combined gross annual income of all borrowers may not exceed $120,000.This limit may be waived based upon individual circumstances for individuals not served by a loan product available in the general marketplace.
- Payments on the existing mortgage are no more than 59 days past due.
- The owner's credit score must be at least 620 or meet all of the following conditions:
- The mortgage payment adjusted in the last 12 months to a higher interest rate or a fully amortized payment and the owner made no more than two, 30-day late payments since the adjustment. The owner's mortgage payment history 12 months prior to the adjustment must show no history of late payments.
- The owner's credit history of other debt (car loan, credit cards, etc.) shows no more than three, 30-day late payments 12 months prior to the adjustment of your mortgage.
- Total monthly total debt costs (credit cards, car loans, installment loans, REAL mortgage payment, student loans, etc.) may not be more than 50 percent of the owner's total gross monthly income (or 45 percent for borrowers with a credit score below 620).

CCCSDV counselors said that very few of their clients received a mortgage through the REAL program because of the relatively restrictive eligibility criteria. In fact, one CCCSDV staff member thought that the program was discontinued due to low volume. However, the program is still listed on the PHA's website as an option for people who meet the eligibility criteria. Nonetheless, it has limited, if any impact on CCCSDV clients, according to the organization's staff.

Opportunities Emerging that Contributed to Positive Outcomes

For CCCSDV clients who live in Philadelphia, perhaps the most important opportunity that emerged in 2008 was the City's Diversion Program. The City of Philadelphia's Mortgage Foreclosure Prevention program was initiated in April 2008 by the Philadelphia Court of Common Pleas and local housing advocates, with support from the City of Philadelphia and the County Sheriff's Office. The program works by postponing Sheriff sales for all owner-occupied residences until the homeowner has had an opportunity to meet with a housing counselor and explore viable alternatives to foreclosure. There are three components to the Diversion Program:

1. Courtroom Meetings: The Conciliation Conference is a special court hearing where proposals to cure the mortgage default are presented to the lender's attorney and a judge pro tem. The homeowner is represented by a housing counselor and if available a pro-bono attorney.
2. Door–to–Door Outreach: The outreach program was added by the City of Philadelphia to raise homeowner awareness of the program. Although every homeowner eligible for the program receives an official notice from the courts, families facing the crisis of foreclosure may become overwhelmed or discouraged, and begin to disregard their mail. The outreach workers go door-to-door to program-eligible properties. They leave informational flyers and urge the homeowners to call the SaveYourHomePhilly hotline to access housing counseling resources.
3. SaveYourHomePhilly Hotline and Counseling: The City of Philadelphia provides funding for a hotline that is staffed by lawyers and paralegals at Philadelphia Legal Assistance. The hotline provides the homeowner with additional information about the Foreclosure Prevention Program, and schedules the initial meeting between the homeowner and the housing counselor. Homeowners are given the option of meeting with a housing counseling agency near their place of work or their place of residence. The housing counselors collect and review the homeowner's financial and loan documentation, and begin negotiating with the lender in preparation for the Conciliation Conference.[8]

CCCSDV assigns a counselor to negotiate on behalf of all clients that participate in the Diversion Program. These participants will go to a hearing one their HEMAP application is denied. After receiving this denial, the client returns to CCCS DV and a counselor completes a proposal that is faxed to the attorney representing the servicer no later than 10 days before the scheduled conference. The Proposal requests the terms of a modified loan that will be requested at the Diversion Program hearing.

The CCCSDV counselor responsible for Diversion Program clients reviews the court's docket (which is available on-line) on the Monday before the Thursday court date and also reviews all of the proposals submitted by CCCSDV counselors on behalf of their clients to the servicers' attorneys. At the Diversion Program hearing, the CCCSDV counselor meets with the attorney representing a client's servicer and hears the attorney's offer. This offer may be

[8] First Judicial District of Philadelphia. Court of Common Pleas of Philadelphia County. Joint General Court Regulation No. No. 2008-01. Residential Mortgage Foreclosure Diversion Pilot Program http://fjd.phila.gov/pdf/regs/2008/cpjgcr-2008-01.pdf.

different than the modification submitted by the CCCSDV counselor in the proposal, and, in these cases, the CCCSDV counselor will negotiate with the servicer's attorney. In most cases the attorney and the CCCSDV counselor, with the client's approval can agree to a mutually acceptable loan modification.

Cases in which a servicer's attorney cannot agree to terms that are acceptable to the client are decided by a *judge pro tem* (JPT). For these cases a client is assigned a *pro bono* attorney, who consults with the client and the CCCSDV counselor about potential options for the loan modification. The JPT has the power to make the servicer come to realistic terms to cure the delinquency, which is often similar to the terms outlined in the initial proposal.

According to CCCSDV counselors, servicer attorney have become another loss mitigation channel because they will often advocate on behalf of the homeowner to their clients. The reason is that, over time, the attorneys have seen that the JPT often rules in favor of the homeowner, and so it is best to come to a mutual agreement before having the case decided by the JPT. When contacting their clients, servicer attorneys tell their clients that the conciliation will drag the process out, which will be more costly than any income lost from the proposed loan modification. According to the CCCSDV counselor who works in the Diversion Program, 70 percent of clients receive a retention option (a loan modification or forbearance agreement), 15 percent receive non-retention options that prevent foreclosure. The other 15 percent of clients go into foreclosure, but these cases typically are ones where the owner comes to the Diversion Program hearing with no information or had been non-cooperative with the counselor.

Although many CCCSDV avoid foreclosure initially from loan modifications agreed to at a Diversion Program hearing, CCCSDV staff are concerned that owners may be unable, going forward to remain current on the modified loan. Therefore, some staff are unsure that the Diversion Program costs (attorney fees, courtroom staff, etc.) are justified, especially if owners assisted by the Diversion Program end up in foreclosure at a later date.

II. NEIGHBORHOOD HOUSING SERVICES OF CHICAGO

Neighborhood Housing Services (NHS) of Chicago has a long history as an innovator in foreclosure prevention and mitigation, based on their recognition back in 1997 of the need to create programs of assistance to borrowers in danger of losing their homes. Well before NFMCP, NHS pioneered, along with the City, Federal Reserve, and many lenders, the Homeownership Preservation Initiative (HOPI), which has been widely imitated and adapted in the city and much beyond. Partnering with the City and lenders resulted in, among other elements, an emergency rescue fund and a long term fixed rate refinancing fund. NHS has a central office and 9 neighborhood offices all supplying foreclosure mitigation counseling.

Volume of clients seeking counseling assistance has continued to increase, in 2007 and 2008, and now again with the publicity for Obama's Making Home Affordable plan. NHS responded to this volume, and to requirements of the NFMCP, by restructuring their handling of clients. These revisions included centralizing their intake and data collection functions, building their own client database, and adding financial education workshops as pre-requisite to individual counseling. They added and trained counselors in foreclosure mitigation/prevention. The have defined a series of strategies and tactics for maximizing counselor success in dealing with servicers and clients. And now they are making additional pilot modifications in their processes to accommodate the Obama plan.

Significant success has been achieved in obtaining loan modifications but far short of what is possible, given client circumstances, with more willingness by servicers/lenders to make loan modifications and more efficient loan modification processes by those stakeholders. Prior to the Obama plan, many people able to make some significant house payment have not been successfully served with modifications. NHS has been able to use its refinance resources as back up for some of them. Still, many of the borrowers they see have housing payments and expenses so large compared to their incomes that they will not be viable candidates for Making Home Affordable, unless large principal reductions become the norm.

Practices for NFMC Program Service Delivery

NHS of Chicago (hereafter NHS) had a large-scale foreclosure mitigation counseling effort in place at the start of NFMCP. But it has revamped its operations in substantial ways in order to accommodate a significantly expanded client flow and to efficiently obtain reporting information required by NFMC. NHS has access to a full array of foreclosure prevention tools, especially relative to many other foreclosure counseling providers; but it still receives contact from many clients it cannot give much help.

NHS does extensive outreach in all of its 9 focus neighborhoods and beyond. This includes collaboration with servicers that are part of the HOPI partnership, the City—which has a 311 hotline that refers people to NHS. It helps that the stigma for asking for help is declining. A piece of the outreach is now mailing in focus neighborhoods to people identified as having begun foreclosure. One extremely energetic counselor speaks and leaflets at many locations and attracts large numbers of homeowners. People enter by way of 311, HOPE NOW 800 number, NHS' own 800 number. HOPE NOW does Level 1 counseling and refers people on. The others funnel most of the time to NHS intake operators who can impart basic information, collect basic information, make people aware they should sign up first for education workshops and schedule their attendance.

All intake information is transmitted daily to NHS's intake office staff, who review the materials for completeness and reach out to borrowers from whom more is needed or who require additional information to be shared with them. The information is entered in an Access database which NHS created itself specifically for this purpose, converted eventually to Excel data points and reported to NFMCP.

The workshops discuss foreclosure process and timeline in Illinois, options available to homeowners including ways of both staying in and moving out of the home, what kinds of things borrowers can do to self-cure and how to approach lender/servicers, and how to sign up for and what documents to bring to individual counseling. These include financial information about income and expenses, a hardship statement letter, mortgage status information, and any correspondence from the lender. Counseling staff also work with people to complete the gathering of intake information at these workshop sessions if the borrowers wish to obtain individual counseling help from NHS and have not already supplied all the needed information to get started.

People are generally required to complete one workshop in order to get an appointment with a 1-on- 1 counselor (exceptions are granted). These workshop sessions are held at various of the NHS office locations for a total of 6 days a week—drawing perhaps on average about 20-30 or more people.

Counseling itself includes foreclosure-prevention-specific advice but also frequently credit counseling, budget planning, and referral for other kinds of assistance in the human services and job training and placement arenas. It starts with checking the accuracy of intake information (e.g. whether the loan is an ARM). An assessment is made of whether a modest adjustment to the loan by lender concession would solve the borrower's problem, or whether the situation is more difficult because of loss of income. Borrowers are asked to construct an accurate budget at home, drawing at their actual records (bills, credit card statements) to offset tendency to inflate expenses. Counselors work with borrowers on suggestions of items to reduce. Using manual calculations and eventually Best Fit, an assessment is made of what the household can sustainably pay for housing. The counselor helps borrowers develop a mindset for contacting the servicer, urging that they listen carefully to what the lender has to say and be prepared to challenge it if it is incorrect or infeasible. The counselor then tries to reach the servicer while they are together.

NHS has a decentralized service delivery model for actual education workshops and counseling, with offices in all 9 neighborhoods in which they concentrate their work (not just foreclosures). Each of those nine offices provides counseling, either from staff regularly on site or from staff who service the location periodically. There is a major counseling operation at the central office on Milwaukee Avenue in addition to the field offices.

Effective Strategies in Increasing Scale of Service Delivery

NHS made major shifts in its intake and initial education/counseling procedures as its caseload rose. Originally, client calls came in to counselors from multiple sources including an 800 number, the City's 311 referral line, Hope Now, etc. Intake of basic information was done by counselors, on a decentralized basis in both the central office and at the neighborhood offices. Then clients who were interested in the services NHS had to offer (some for example only wanted to know if there was a loan reduction or subsidy ready at hand) were scheduled for 1-on-1 appointments of 1 to 2 hours.

As volume grew, counselors could not handle the caseload in this fashion. Two key changes were made. The first is centralization of intake. The same contracted operators who were answering NHS's 800 number now have a script from which they gather basic information about the borrower and loan status sufficient to determine whether the borrower qualifies for assistance (owner occupant, within City of Chicago, whether delinquent)and in which they offer information about what NHS can provide. People who enter the system in other ways are generally transferred to the NHS operators. After doing their work, they then refer people to the second main component of change: the foreclosure education workshop. The intake information is transferred to a central office of NHS intake staff. They check the information that has been submitted to make sure it is complete and accurate and do follow-up with clients if anything is missing or inconsistent.

Until May or June, 2008, NHS had no group workshops. NFMCP-related volume helped trigger the desire to manage counselor time more efficiently. Now virtually everyone attends one before being allowed to schedule individual counseling sessions (see Q1 for content of workshops). Over 500 people attended workshops in March, 2009 alone, after the Obama loan mod plan received publicity. Those who want to continue with NHS are aided in completing their intake forms, which also provide information mandated by NFMCP to qualify NHS for reimbursement. And they are informed about materials to bring to the 1-on-1 if they choose to schedule one so that the first counseling session can potentially produce not only a plan of action but communication with a servicer and movement to or toward a modification proposal.

Presently, clients still have to wait a week or two for an individual interview but far more borrowers are moving through the system than before. Numbers rose to 400 for just the month of March, 2009. Volume over the year 2008 was 2,500 clients, whereas most other Chicago foreclosure counseling agencies serve 100. NHS volume has been large for some time, including 1,900 in 2007.

NFMC resources are a significant help in handling workload, enabling the shift of counseling resources from reduced activity in counseling and lending for purchase to expanded foreclosure mitigation work. The NFMC program requirements forced the intake centralization moves and the creation of the Access database that helped facilitate handling more clients. But most NFMC dollars generally arrived too late to actually pay for those changes themselves.

NHS added additional management to help handle expansion of services and scale. It hired a new Assistant Deputy Director with responsibilities for both homeowner lending and counseling, each with its own manager. With her arrival they needn't have managers of both of those functions reporting—along with lots of others—directly to the Deputy Director, meaning they get more direct problem-solving assistance from their manager. Six (4-6 per conflicting interview information) counselors working full time on foreclosure mitigation were added in part with NFMCP funds. Some counselors shifted from pre-purchase counseling to foreclosure mitigation, or shifted part of their time, so that most counselors now spend 80% of their time on foreclosures. The City of Chicago will pay up to $40/hr for up to 10 hours of counseling per borrower.

NHS is making a further shift in its intake and counseling procedure, at least on a trial basis, in the context of President Obama's foreclosure prevention plan. It is a holding a one-day event ("Fix Your Mortgage") to bring perhaps 1,000 or more households together with counselors and servicers/lenders. They will be asked to bring 4 basic pieces of data that will document their financial situations sufficiently to submit a proposed loan modification on the spot. Large numbers of counselors and people, mostly attorneys, newly trained to work with these borrowers specifically in relation to the formula in the Obama plan, will be available to move people immediately forward to the point of creating and submitting a documented proposal. The 1 to 2 hour individual meetings with counselors will be foregone. Those without the full set of necessary documents will be served with beginning intake efforts, workshops, and appointments for their return with needed materials.

New resources assisted NHS in making the transition to serving a much increased scale of foreclosure clients. The MacArthur Foundation supplied $1.2 million, a major expansion from its previous support to NHS, to enable the organization to do expanded marketing outreach to potential clients in their target neighborhoods, to help make the structural changes just discussed, and to shift people from pre-purchase counseling and purchase lending to foreclosure intervention. NFMC start-up and requirements triggered the workshops and intake changes, though its dollars were mostly too late to help pay for them. The NFMC dollars enabled retention of added staff on the foreclosure side who might otherwise have had to be laid off as purchase and rehab loan demand declined in the worsening economic climate during 2008.

Strategies Best Able to Prevent Foreclosures

Being able to, very early in the counseling process, talk to a real decision-maker who can give a correct story the first time about what is possible would be a great help, but it is often not possible.

NHS's long history of work in the foreclosure prevention field, including specifically the partnerships with lenders (and City and Federal Reserve) involved in HOPI, does help in being able to deal with the problems of working with servicers' on loan modification/loss mitigation. But whether awareness of an existing servicer/counseling relationship, and trust in and respect for NHS, actually makes it down to a specific individual loss mitigation staffer at a servicer is questionable. NHS has worked hard to pin down who the right servicer staff people to talk to are (with help from HOPI and Hope Now partners), to speak to the same person consistently on a case, and to establish standardized worksheets across servicers. In some instances, Mike Van Zalingen, Director of Homeownership, has been able to establish a relationship with a particular contact at a servicer, who can be used when a case needs a breakthrough or escalation. Counselors do escalate cases with some success, at least to the point of obtaining some response, though by no means always a favorable one in terms of a sustainable loan modification.

NHS is conscious about working with servicers who take the lead in working out sustainable modifications and improving various practices, and then using the progress as a demonstration to other services who might follow. Homecomings/GMAC has been such a leader. It has a loan officer located within NHS's central office (as a tenant). Counselors with GMAC borrowers refer clients to him, in general and especially with clients who might seek NLP refinancing with a short payoff. And he hears from borrowers in trouble and refers them to NHS workshops and counselors, especially where budgeting is a problem.

Homecomings provides good modifications, including 3-month trials with no down payments for arrearages. The Homecomings staff member does not himself handle loan modification but will at times intervene with the loan mod decision-makers in his company or at the least step in to establish communication between counselor, borrower, and servicer when telephone and FAX tag is failing. Given the prevalence of missed communications and long lags, this can be important intervention. Interactions with the servicer's representative on site help counselors to understand servicer needs and vice versa, including mutual recognition that everyone is overwhelmed by volume of cases. Counselors and servicer rep are able to be very direct and frank with each other about what will work in specific cases and more broadly. They mutually develop more accurate expectations of what can be expected from the other institution. The GMAC staffer and NHS have been in substantial communication about what GMAC and other servicers need and expect in terms of data, documents and proposals within the new Obama plan—helping to assure the provision of necessary common baseline of information.

The two counselors we talked with were with NHS 2 years and 1 year respectively. The more senior counselor did not have a background in housing and housing counseling before NHS but had been involved in retail banking and customer service. The other counselor had experience in mortgage origination and underwriting. Both thought a strong people orientation—putting oneself in position of the homeowner fighting for her home and of the servicer/lender—was a key to their work. Other important aspects of counseling approach included:

- Calling the servicer together with borrower, so that the servicer knows that everyone is listening and that the borrower is represented by a knowledgeable counselor.
- Counselor being aggressive with servicer—insisting on talking to loss mitigation staffer (not collections) and, if they are clearly scripted, asking for a supervisor or hanging up and calling again to get a different person. If response to proposed modification is "no," pushing for explanation of why. Making servicer know you are prepared.
- Knowing the homeowner's situation well so that you can share specific facts that prevent the lender from sticking with a pat answer.
- Demonstrating to servicer that with loan modification the client can pay and is willing, per budget, to make sacrifices to do so.
- Making a strong pitch to borrower to recognize opportunities to reduce expenses. Working with borrower to create a budget based on accurate information on expenses, reviewing it line by line.
- Assembling a complete package and submitting all at once.
- Getting client to have realistic expectations and to consider a Plan B if Plan A fails to get approval. But in a significant number of cases, Plan B involves losing the home; and few home owners are prepared to hear it.

Giving counselors opportunities to talk with each other and exchange ideas and techniques that are working is a valuable element of helping them become more savvy. The two counselors with whom we met, both from the same neighborhood office, talked about borrowing specific tactics from each other and about the value of joining in exchanges with others as well.

The result counselors seek is a loan modification ("Plan A"). In general, repayment plans are not helpful. "If the client could make those payments, they'd be doing it."

Loan modifications by lender/servicers have accounted for perhaps 75-80% of saves—despite the many difficulties of communicating and working with loan mitigation officers. NHS's refinance capability (see Q 10) has been of significant value to date in saving people's homes. But refinances, using the NHS's NLP, have been more a reasonable option in the past than now, though thought of as always inferior to loan modifications. Now, many clients coming in are in no position to refinance, given their incomes and recent credit history. And their homes have lost too much value to allow it, unless the lender will accept a short-payoff, which is very rare.

NHS staff find value in using Best Fit (after previously upgrading Home Counselor Online) as loss mitigation software. It provides an opportunity to place documents securely on websites from which counselors and servicers can access them, eliminating the losing of faxes and similar transmission problems. Regrettably only some servicers use Best Fit, which means its value for information exchange is limited to less than its full potential. But NHS finds it useful nonetheless (one user however is disappointed in its limited ability to accept notes on cases), for the servicers who do use it and as a device for their own use, with some useful data also attached. NHS continues to upload the information on cases of borrowers whose servicers are not using it and to push for them to take advantage of it.

Many borrowers pursue self-curing of delinquencies, contacting their services themselves after the initial workshop and perhaps one discussion with a counselor. Data on success level is not available.

Strategies Best Able to Mitigate Losses

NHS aims to promptly give households accurate information when there is no apparent alternative to losing their homes. Counseling managers want to limit involvement with these cases, referring people quickly to sources of help with finding housing, relocating, and getting access to additional resources to aid with transition. Many people do not want to hear that advice, and counselors themselves are reluctant to refuse service. A small number of these borrowers take a great deal of time to console and convince if staff are not firm about the need to go on to help others. But counselors are moving a bit toward referring quickly and have accumulated a variety of referral information to be able to help people meet multiple needs. All concur that giving realistic expectations, telling the truth from the start are important.

NHS management goal is to do in-person counseling only with those who are viable candidates to stay in homes and triage others on the phone at intake, sending them to sources of other aid or possibly to the foreclosure option education workshops. Counselors feel that people often need to hear in person that the situation can’t be fixed in terms of saving their homes and then receive help with referrals to assistance of other kinds. Everyone on staff seems to recognize that triaging in order to serve all who can be helped and meeting the needs of even those who cannot save their home poses a tension.

Counselors are aware of relatively few actual foreclosures. But many people who make an initial contact thereafter disappear, and some significant percentage end up with foreclosures (more than a quarter of all NFMCP borrowers listed by NHS already have started or completed foreclosures).

Most Important Challenges Faced in Foreclosure Counseling Work

Getting and maintaining the right contact with servicer's loan mitigation people has always been a big problem since the crush of volume of borrowers became severe. The situation has generally improved a little but it still goes up and down for any given servicer with such factors as specific people in key roles, turnover of staff, servicers' specific situation and management, changing systems. And it remains very difficult to be able to work on a continuing basis with the same person. That problem is made worse by the training weaknesses for servicer staff, which mean that a loss mitigation officer's answer on the possibility of using one approach may be different from that of the person reached on the next call. (This can also be used to a counselor's advantage however: counselors will hang up and get a different person if they don't like the response they are being given).

Untrained staff at servicers is a broader problem because counselors can't know what to expect in terms of acceptance of proposals. Loss mitigation staff often rely on rote responses, which usually means no. And even the better-trained servicers have great difficulty getting clear guidance. Frontline staff may think they can make a certain arrangement and focus on that with client, but then when he/she has to check up the line, the proposal turns out to be something they can't do. Counselors would greatly benefit from getting to talk more often to someone who is close to those who are making decisions.

Simple communication, including FAX transmission of documents (verifications, authorizations)—often lost, getting someone at servicer to answer phone, phone cut-offs, remains a significant and frustrating problem. It can take 2-3 weeks simply to get servicers' acknowledgement of receipt of borrower authorization to release information to a counselor. More broadly, the sheer volume of cases poses response problems for servicers and counselors. The response to the Obama plan and its 2% interest rate modifications has been enormous and again strained the counselor system—the reason for the attempt at a series of one-day events. Volume is up by a factor of 3 to 4 times since the plan started being discussed.

On all of the above issues as well as servicers' attitude toward providing modifications, servicers and especially collection departments have been set up for a different era—where divorces and job losses and other changes in circumstances rather than the nature of the loan itself were cause for delinquency and where the numbers of defaults were very much smaller. Servicer systems and policies have changed but far too slowly to match changes in circumstances.

At the counseling end, intake revisions and the institution of group workshops has greatly eased the difficulties of initial interaction with borrowers and capture of necessary data. Counselors however remained swamped by the numbers of people seeking counseling. Providing the time of counselors for individual sessions with clients remains a major obstacle, with delays in clients getting scheduled for individual sessions and challenges in staying on top of every ongoing cased.

Also on the borrower/counselor side, it often takes a lot of time to work with homeowners to get verified budget information as part of compiling information for the servicer—bank statements, bills, etc. to document borrower expenses in showing hardship.

Servicers have been reluctant to provide sustainable loan modifications, even once the right loss mitigation person is contacted. They tend to fall back on the "investors won't allow it" explanation. But NHS staff seem to be saying that an equally big or even modestly bigger problem is that many of their borrowers cannot benefit from any reasonable modification (Obama plan may take saves from previous 20% to 53% but that leaves the 47% or so for whom a 2% interest rate won't work).

It seems that the Net Present Value formula in the Obama plan should make things better by giving a clearer standard of what is an appropriate modification and justification, although there are key parameters to the analysis in terms of loss from foreclosure that still need to be established. Waiting for the Obama plan to be in place slowed progress. There remains concern among lender/servicers about what to do about investors in securitized loans. Servicers differ in their interpretation of what investor agreements allow, securities differ, and different investors have different interests regarding nature of modifications. Obama plan may help on standardization.

Another challenge has been second mortgages, which perhaps 25% of incoming clients have. Some holders of 2nds are stubborn about largely writing them off, even when they seemingly will receive nothing in a foreclosure. But there is some increasing realism on the part of second lien holders. Bank of America for example now looks for 5% of what they are owed on seconds.

Initially, NFMCP reporting posed a challenge. NHS had its own large intake form, which nonetheless lacked data NFMCP required. And counselors took intake directly themselves and did not treat the information gathering, for things they did not need for counseling itself, seriously. Some data requirements were not easy to see amid program manual details, resulting in NHS having to go back after the fact to collect information on many of the cases they handled in the first half of 2008. Credit reports and FICO scores were a particular problem until NeighborWorks relaxed the requirement for them. Now the data needed for Level 1 are obtained well in initial phone intake by non-counselors and in the workshop that precedes individual counseling. After the central "Intake Office" receives the files and enters the information into an Access database, intake staff pursue any missing information by phone. The database is set up so that it is fairly easy to upload the information needed for NFMC program's system. Some additional data (four major points) is needed for Levels 2 and 3 and that remains a challenge. Counselors require some prodding regarding each of the borrowers shown as being assigned to them to update information on outcomes, mode of counseling etc.

Perhaps the most serious problem is nonetheless the number of borrowers with such high debt service to income ratios that no loss mitigation option would really be very helpful. See

#6 below for further detail. An upcoming set of problems are the Alt A, prime, and payment option and interest only ARM loans that have as yet not been going delinquent previously in the numbers that have subprime ARMs.

Clients for Whom Successful Foreclosure Prevention is Most Difficult

Recently, many borrowers are in one or more of several categories: people who never had income to support full payment of their loans once full loan payments were required and teaser rates, etc. expired; people with very troubled credit histories and other circumstances who borrowed on a no-documents or liar-loan basis; people who were fraudulently misled about their loan terms; people who had sufficient or marginally sufficient income and then lost jobs; and people who have already received a loan modification but have become delinquent again. Many are seniors talked into repeatedly refinancing their loans, with large fees paid and ever-higher loan balances that now far exceed their means. Housing debt service to income ratios of 70 to 80 percent are not uncommon. Total all-expense to income ratios of 170 percent are also not uncommon.

People without jobs and with an imminent sale date are among the least possible to save successfully. Even someone without a job but with some time before foreclosure sale—Illinois foreclosures take about a year—has had a reasonable chance of being able to find a way to save his/her home. People have in some cases been able to find new employment during the lengthy period before final foreclosure. Unfortunately the deteriorating job market decreases this likelihood—people who could always find at least some employment are now having a difficult time getting any job. Counselors try to help owners find employment or come up with another way to obtain income, including renting out part of their homes, sharing with a relative etc.

The Obama plan extends from 20% to 50-55% the share of clients NHS may be able to help, they estimate but that still leaves large numbers. Significant numbers of borrowers are older people who were doing fine until talked into refinancing and now have front-end, housing only debt to income ratios of 70% and more and no way to be assisted short of significant reductions in principal as part of loan modifications. These loans are often ARMs with debt-to-income ratios at 50% even before reset and now significantly higher. Also a problem are rising amounts of non-housing debt limiting what people can afford to pay for their housing expenses.

Lenders have in most cases in the past refused to consider principal reductions. They are still reluctant but some are showing more willingness. The change is not enough to handle many of these difficult cases.

Strategies Best Able to Reach Those in Areas of Greatest Need

NHS has 9 neighborhood offices in different neighborhoods of the city, giving them a good sense of where foreclosures are concentrated and to whom to reach out. The MacArthur Foundation resources for outreach in MacArthur's 16 target communities granted to NHS provided a major boost in reaching borrowers in need of help. In addition, NHS has on a pilot basis obtained lists of foreclosures in process accumulated by NTIC. NHS then contacted these borrowers and provided them with a workshop in which the servicers are present and borrowers can talk 1-on-1 with their own servicers.

Strategies Best Able to Serve Borrowers Most At-Risk of Foreclosure

People with an imminent date set for foreclosure sale of their home receive some priority attention. But some balancing is done given that these folks are by no means systematically the most likely candidates for successful home saves. Getting to some early in the delinquency process is valuable.

Note that in Illinois a foreclosure typically takes about a year, so that people with delinquencies that would be very lengthy in some locations still have significant time to cure in Illinois.

Availability of Emergency Rescue Funds

NHS has funds for small deferred-payment loans to enable homeowners to catch up on their arrearages. Maximum assistance is $10,000, in the form of deferred and forgivable second mortgages interest free or at 3% interest. Funds are from the City of Chicago foreclosure intervention program (FIP), using mostly CDBG resources. The program was useful earlier, especially in conjunction with loan modifications, to meet the down payment requirements toward arrearages that lenders were demanding in conjunction with the modifications. More recently, so many of the clients have a much larger arrearage and/or an unsustainable long-term mortgage that this rescue fund alone has become much less useful. And lenders who do make modifications are less often requiring major down payments.

The City's 311 program has up to $1,500 available to help people to bring their mortgages current when they have very small arrearages.

Availability of Long-Term Assistance Funds

NHS has for 6 years had large-scale funds available for refinancing people out of bad loans (total refinance). A good many of the borrowers coming in the door in the past had high-interest ARMs (or just high interest). The primary means to "save" them was always getting a loan modification from current lender, since best was to allocate risk to the original lender rather than shift it to NHS. But a 20-25% share of saves were in refinancing in 30-year fixed rate loans.

The loans came from Neighborhood Loan Program (NLP), which is a pool of about $100 million over 3 yrs (in 2003 and then again in 2006 and now being finalized at $130 million for three more years). Over 20 lenders participate and take a piece of each package of loans. The loans can be for purchases, rehabs, and combinations that don't involve foreclosure prevention as well, but some were for the refinances of the bad loans. NHS originates the loans with its own funds (supplied by the City of Chicago from CDBG and general (“corporate”) funds) and then every couple of months sells them to the NLP (the loans are seasoned a bit before the NLP lenders come in actually as investors in the mortgages). The NLP is a 30-yr line of credit, used to provide 30-yr fixed-rate loans to people who may have ARMs at 8 to 11 percent. The loans have been made at around 5% (currently 4.79% and as high as about 6% earlier), which is a substantial benefit to people with interest rates of 9-12% that were common in the subprime market in Chicago. Some of the loans include a soft second mortgage. CDBG provides that piece of the lending, or if the loan is in a target neighborhood but not to a borrower with income below 80% of AMI, the City general fund money is used. There is also some philanthropic money and other funds that sometimes mean 3 loans to make the refinance sustainable to the borrower.

This foreclosure prevention line of refinancing business is declining however, for several reasons. Increasingly borrowers coming in for counseling have lost income or jobs and can’t afford refinance loans; the interest differential is less often high because people with decent loans are now needing help in the bad economy; property values have declined enough that refinances can’t pay off existing loans; and people are eager to use the Obama Homeownership Affordability and Stability plan with its interest rates as low as 2%. The NHS refinances aimed for 38-41% housing debt to income ratios, whereas Obama sets 31% as the standard. And NHS itself prefers to have the future risk of default rest with original lenders, not to pay them off with a refinance. Modifications from lender/servicers were always the preferred option for this reason and remain so in the context of Obama’s plan.

Opportunities Emerging that Contributed to Positive Outcomes

NHS has significant hopes for the value of the loan modification portion of the Obama plan to avoid large numbers of foreclosures. They used the detailed data compiled to comply with NFMCP reporting requirements to estimate that 53% of their clientele to date could have been saved by the plan, compared to the 15-20% of borrowers actually saved from foreclosure to date. NHS is figuring out who qualifies under the new rules, helping people get the needed documents (fewer than before) together. Key is whether servicers and lenders really respond. NHS plans to submit a large number of applications all at once based on May 2 and then June 6 events, to test what servicers will really now do under the Obama plan. They intend to promptly report to policy makers what they find out from this experience and complain loudly if there are still only a limited number of sustainable modifications. Servicers have promised to provide responses to Obama plan modification proposals in 4 to 6 weeks. July 7 is HOPI’s semi-annual meeting, which includes the Fed Reserve among its participating partners. That will be a good time to release the results in terms of modifications obtained.

NFMC views the Obama plan as essentially voluntary, despite the mandate for participation by bailout recipients and the requirement that those lender/servicers who decide to sign up for participation need to respond to all borrowers approaching them and say why any mod rejections are rejected. They do see that most big servicers have signed up, in response to the $9 billion incentives. It should help that there is a clear and simple way of defining hardship, rather than having to guess how the servicer will respond to a given set of borrower conditions. Not clear is whether servicers will turn down people with back-end debt payments to income ratios of over 45%. While that is supposed to be a standard, the data collected doesn't appear to allow lenders/servicers to know what borrowers total debt is.

NHS thinks that the proposed ability of bankruptcy courts to reduce mortgage payments on first homes is an important component of making the Obama plan work, giving services/lenders/investors greater insensitive to accept reasonable loan modifications in order to avoid this alternative.

NHS sees little use for the Fannie/Freddie refinancing portion of the plan, because their clients don't usually have prime mortgages and are too far underwater in terms of home values to qualify.

NHS was the first organization in the City of Chicago to recognize the foreclosure problem and get seriously into foreclosure prevention counseling. One result was getting significant City dollars for counseling in general that could be applied to this purpose (now there are 8 organizations doing it with City money). This money is fee for service, so you can't use it for capacity building.

When Bank of America acquired Countrywide, which had many foreclosures as lender or servicer, it agreed to carve out money for foreclosure counseling. City suggested NHS (perhaps among others) and B of A made a 2-yr, $500,000 grant for expanding capacity to NHS—a great help because upfront money, not fee for service.

Clearly having a former NHS manager in a significant position regarding homeownership inside City Hall is helping bring resources in helpful forms. Examples include adding $1 million in general funds to the CDBG money so that borrowers in target neighborhoods can be served even when they have moderately higher incomes and finding a way to make NHS eligible for being able to use repaid City funds in the NLP as a revolving fund instead of repaid to the City as program income.

Other Issues Not Covered Elsewhere

Needed for the future is a sustainable business model for counselors: that if you work with three or four households intensely during the course of a day, someone pays the cost of your time and overhead. That could be servicers but is not as yet. Note that the Obama plan assumes that a significant share of households getting loan modifications are required to seek counseling, based on their financial situation; but no resources are provided to pay the costs of supplying the counseling. So far, post-purchase counseling does not have the acknowledged value that pre-purchase does. It needs to gain on that front in order to make the business model work and to increase the responsiveness of loss mitigation staff at servicers to counselors assisting borrowers. There seems to be some progress on that front, with lenders and servicers calling their staff "counselors." Partly this is because foreclosure counselors were ready to intervene as crisis rose. There is increased recognition of the value of a trusted third party in a context in which borrowers often just tell servicers what they think they want to hear and in which many borrowers decline to contact their lenders no matter how much difficulty they face meeting mortgage obligations.

For the long run, a crucially important response to the subprime disaster must be to "restore confidence in homeownership" for people of modest means, for borrowers, lenders, and policymakers. Analysis is needed to see in what circumstances ownership continued to work—with loans from community banks, pools like the NLP, pre-purchase and post-purchase counseling, etc. What underwriting do we need in order to expand homeownership without running into default problems? Where do down payments fit? In what specific situations did we push the envelope too far?

NHS is confident about the expertise of its own counselors but feels that many people in the field in other agencies are not adequately trained. The lack of expertise may well be reducing the extent to which servicer loss mitigation officers take counselors seriously, including NHS counselors. Having funding sufficient to pay counselors better salaries would likely help with this and other problems in attraction and retention of qualified people.

NHS of Chicago's strategies and tactics serve as models for other parts of the Chicago foreclosure mitigation apparatus and more widely. HOPI of course has helped lead innovation nationally. The City of Chicago adapted NHS's pilot mailing to identified borrowers in foreclosure process, inviting them to meet their servicers in individual meetings following a workshop. The City added its leverage to get participation by more servicers/lenders (the HOPI partners) and to get the lenders to send mailing to their respective customers. The Mayor personally promoted the events in the media. Aldermanic offices etc. distributed information about the availability of the workshop/meetings. Thirteen of these were held in 2007 and 2008, serving over 3,000 people; participating servicers have risen to around 10 per session; 10 counseling agencies have participated; Legal Assistance provides individual sessions where appropriate; and other parties including Fannie and Freddie participate in the sessions and mail to their borrowers. The City estimates 50% of borrowers get some kind of arrangement with their lenders. This effort attracted borrowers from well beyond Chicago itself and opened doors to discussions with suburban communities which may copy the effort. The City and lenders are also thinking about virtual versions of this event because the lender staff are spread pretty thin.

APPENDIX G – SECOND CASE STUDY REPORT

National Foreclosure Mitigation Counseling Program Evaluation

Second Case Study Report: Challenges and Best Practices in Foreclosure Mitigation Counseling

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INTRODUCTION

The National Foreclosure Mitigation Counseling (NFMC) program is a special federal appropriation, administered by NeighborWorks® (NW) America, that is designed to support a rapid expansion of foreclosure intervention counseling in response to the nationwide foreclosure crisis. The NFMC program seeks to help homeowners facing foreclosure by providing them with much needed foreclosure prevention and loss mitigation counseling. NW America distributes funds to competitively selected Grantee organizations, which in turn provide the counseling services, either directly or through Subgrantee organizations.

As this is a federal appropriation, NW America must inform Congress and other entities of the NFMC program's progress. The Urban Institute (UI) was selected by NW America to undertake an evaluation of Rounds 1 and 2 of the NFMC program.

This report synthesizes and presents findings from case study interviews with eleven NFMC Grantee and Subgrantee organizations conducted in the spring of 2011. Our preliminary quantitative analysis of outcomes for the first two rounds of the NFMC program (Mayer et al. 2010) had shown that counselors make a difference for troubled homeowners. NFMC-funded counseling helps homeowners obtain loan modifications with larger payment reductions, stop foreclosures, and cure seriously delinquent mortgages. Moreover, NFMC program clients' loans after curing a seriously delinquency were much less likely to fall back into trouble. These analyses documented that counseling works, but they did not tell us *how* counselors helped their clients, and what strategies were effective in obtaining these successful outcomes.

To collect such information, we selected 16 Round 2 NFMC Grantees and Subgrantees based on their ability to achieve good outcomes (as determined in our quantitative analysis) with regard to curing loan delinquencies and getting loan modifications for their clients. The organizations were selected based on the performance of clients' loans that were modified, became current, remained current, became delinquent, started foreclosure and completed foreclosure. Initially, we selected among the high performing organizations nationally. We then selected some high performers which were in states with high foreclosure rates, to include in our sample organizations doing counseling under the most difficult circumstances. After we contacted all 16 organizations, the following 11 agreed to interviews:

- American Financial Solutions*
- Frameworks*
- Mustard Seed*
- NeighborWorks HomeOwnership Center Sacramento Region
- NHS Phoenix

- Neighborhood Housing Services of Birmingham, Inc.
- CCCS of Jacksonville*
- LaCasa, Inc.
- CDC Utah
- Orange County Fair Housing*
- Beyond Housing / Neighborhood Housing Services of St. Louis

* Subgrantee of a direct NFMC funding recipient.

We conducted a preliminary interview with each organization's executive director and/or director of counseling services[1] in which we asked about the methods the organization used to achieve its outcomes and the strategies that contributed to its success. To focus these interviews, we identified seven issues that affected the ability of foreclosure prevention counseling organizations to do their job, based on a web-based survey of Grantees and Subgrantees and interviews with industry participants and observers that we had conducted previously as part of the NFMC evaluation. The key issues we identified were:

- Increasing servicer responsiveness,
- Developing successful strategies for working with clients,
- Dealing with clients' major income reductions,
- Trying to change servicer decision-making,
- Promoting early entry to counseling,
- Expanding counseling capacity, and
- Developing successful approaches for working with the Home Affordable Modification Program (HAMP).

Based on the preliminary interview responses, we selected the first three of these issues for further focus in follow-up interviews. These three issues were most often highlighted as the areas which the counseling organizations felt were crucial to producing their outcomes and in which they had developed practices of note. Within each of these three areas, we selected sub-topics for particular attention.

We conducted follow-up interviews with counselors, managers (additional ones and in some cases again with first-stage interviewees) and, when applicable, representatives of other

[1] Or other lead staff designated by executive directors.

organizations that partnered with the selected NFMC Grantee or Subgrantee. We asked the representatives of each organization about the importance of these issues, and the strategies that they used to overcome obstacles that were identified in our earlier research.

Below we present our findings for each of the topics discussed with representatives of the selected organizations.[2] We report at length on the three topics for which we conducted the second round of interviews and more briefly on those of lower priority.

INCREASING SERVICER RESPONSIVENESS

Not surprisingly, counseling organizations consider making improvements in their interactions with servicers to be a very important part of achieving good results for their clients. They have put significant work into achieving improvements in this area, highlighting five key points of concern, adjustment, and improvement.[3]

- Reducing the chaos and delay resulting from lost documents submitted to servicers.
- Developing contacts and relationships with servicers and learning whom to go to for good cooperation, escalation, and quick response.
- Knowing how servicers are likely to assess a proposed modification, forbearance, or other proposal.
- Being persistent in follow-up.
- Initiating and/or participating in servicer events, which promote live contact between servicers, counselors, and clients, but making sure that such events are structured to be successful.

We expand on issues and best practices in each of these five areas below.

Best Practice: Reduce the chaos and delay resulting from lost documents submitted to servicers.

Difficulties in transmitting documents needed to apply for loan modifications and other solutions, confirming their receipt, avoiding their being lost at the servicer end, and identifying missing documents needed by servicers so that they can be re-submitted have been a major

[2] The findings in this report supplement the detailed case studies of CCCS of Delaware Valley and NHS Chicago that were prepared for the evaluation of Round 1 NFMC organizations. These two case studies are included as an appendix to this report.

[3] A related topic, providing servicers with complete documentation, is discussed in our findings related to working with clients.

obstacle to effective foreclosure prevention solutions. After encountering major problems with systems of faxing to servicers and follow-up by phone alone, well-performing counseling organizations have in nearly every case invested substantially in addressing this issue.

Some but not all have been early and aggressive adopters/users of HOPE LoanPort™. This digital system for internet transfer of documents and communication between counselor and service has a number of attractive features. Documents can be transferred electronically—confidentially and securely. Participating servicers pledge to accept digital signatures on documents transmitted through the system. Confirmations are provided back swiftly and automatically, assuring that all stakeholders have the same information about which documents have been successfully transferred.

Another advantage is that the system identifies documents required by each servicer and provides forms as needed. The set of documents received are readily available to any servicer staff who become involved with the case and at the counselor end as well. Continued communication about the case between counselor and servicer can be pursued through the system so that all communication is well-documented and can be accessed by all stakeholders and so that updates of status are prompt and clear. Some LoanPort servicers still communicate about status directly with homeowners, and counselors ask their clients to regularly update them on those communications. A result of these mechanisms is far fewer uncertainties or disagreements about what has been provided, proposed, or promised. Many participating counseling organizations, but not all, report a better, more consistent, and swifter response by servicers to the proposals and requests submitted through HOPE LoanPort.

There are nonetheless limitations in LoanPort that have led some organizations not to employ it. Even for participating organizations, the system cannot be used for all clients because some servicers do not support it, requiring that other mechanisms be maintained for these homeowners. Some counselors use other case tracking and reporting systems (e.g. Home Counselor Online) that do not feed into LoanPort so that they must do dual data entry and analysis to use that system as well. Even so, those organizations find LoanPort sufficiently advantageous to carry out that duplicate effort.

Another issue raised by some counseling organizations is that document transmission and communication in LoanPort necessarily occur principally between counselor and servicer, rather than between homeowner and servicer. While some counselors like the certainty that they know about all communication, others are concerned that it is harder to get homeowners to "own" responsibility for pursuit of their own rescue when they are not as directly in the loop. The reduced ownership may reverberate negatively for not only client follow-up of applications and proposals but their commitment to revised budgeting and spending patterns and other important borrower responsibilities.

The most important point, however, is that successful counseling organizations, whether they employ LoanPort or not, make substantial investments in time, energy, and often technology to deal with document transmission and tracking problems. Some have their own custom digital systems providing for clear tracking of documentation and negotiation. These involve ways of tracking, reminders, reviews, reporting and an array of other features to follow well where a client is in doing what the borrower is to do and the same for a servicer. Revised servicer standards allow for more document transmission through scanning coupled with email. Organizations have developed detailed mechanisms and schedules for follow-ups quickly after document transmission to assure and document their receipt, by varying combinations of agency and client. Many have found it efficient to assign tasks within these systems to dedicated administrative staff, leaving counselors more time to work with clients on plans and proposals and to negotiate with servicers. Some organizations use centralized document transmission centers. Communication after document submission now is often by email, eliminating the problems of not being able to find people available by phone for at least routine matters like confirming the transmission of documents or that a package is complete and signaling the assigning of a case to an underwriter/negotiator or other change in status at the servicer end. As with LoanPort, these alternative digital mechanisms allow for efficient transfer, sharing, confirmation, storage, and retrieval.

Even the organizations that are using fax, phone, and conventional mail have adopted their own mechanisms to resolve document and communication problems. These include using certified mail for standard document mailing, tagging each page of faxes with case numbers and names, saving fax receipts, and phoning servicers promptly to confirm receipt. And when servicers say they have not received a document, whether in a digital system or any other, counselors resend it promptly. Once counseling staff member emphasized that s/he: “always puts the ball in the lender’s court.”

Organizations reported substantial results from adopting the approaches described above. Many consider the lost-documents and completed packages problem specifically to be largely resolved, through a combination of their own efforts, technological improvements, and some improvement in capacity at the servicers’ end. One organization reported that counselors used to spend two days a week dealing with document and communication challenges with servicers by phone, but they now devote nearly all their time to more uniquely counselor tasks and roles. The instances of inconsistently transmitted faxes piling up at changing servicer fax numbers, disconnected from other documents for the same case, and available to only one person at a time, are far less frequent. Counseling organizations’ commitment to and investment in resolving these problems have made a significant difference for them.

The success in resolving these issues reported by the case study organizations contrasts with the findings of our wider web-based survey, whose respondents from several hundred NFMC counseling organizations highlighted continued difficulties in document submission and receipt. While partly that may reflect rapidly changing environments between time of web survey and the slightly more recent case interviews, such as wider LoanPort adoption by counselors and servicers, the web-based survey was recent enough to suggest that our successful case study organizations may have made a greater commitment to solving these problems and, as a result, have achieved better results.

Despite the progress that has been made, a problem that seems to remain is that of “stale” documents. A number of the documents required by servicers for consideration of loan workouts, such as pay stubs, must be from very recent periods. But the process of getting a confirmed complete submission package assigned to and worked out with an underwriter fairly often exceeds the period allowed for aging of the documents initially submitted. In this case, new documents must be obtained from clients, submitted to the servicer, and confirmed. Some organizations still report a destructive circle, in which the requirement for fresh documents then pushes clients and counselors back into the document transmission and receipt problems. More recently, that problem has been reduced by the systems just discussed; and counselors simply warn clients in advance that refreshing of documents submitted is an expected part of the process.

Best Practice: Develop contacts and relationships with servicers and learn whom to go to for good cooperation, escalation, and quick response.

Successful counseling organizations consider building contacts and relationships with servicers to be crucial in multiple ways, knowing the right people to call for cooperative problem-solving to find non-foreclosure solutions, moving cases forward when they have become stuck for various reasons, dealing with cases in which servicer proposals are unsatisfactory, heading off imminent foreclosure auctions and allowing time for alternatives to develop, or resolving situations in which initial servicer response seems inconsistent with documentation provided or established procedures.

Counselors develop these relationships by multiple means. They use their regular case interactions with servicer staff to build connections. One important part of this process is by dealing with servicers on a professional-to-professional relationship. Counselors try to recognize the obligations and constraints servicer staff face (“recognizing they have a job to do” and that “the banks are not always the bad guys”), while still advocating for their clients. They work hard to establish connections in the course of one client’s case that they can then use in others. Clients are often so frustrated and upset they have difficulty dealing with servicers, and a counselor’s calming intervention may be an important tool. The counselor may be able to emphasize the shared interest of the servicers in not wanting to possess the real estate and the homeowners in not losing their homes.

Successful counselors make servicer staff’s jobs easier and build servicer confidence in dealing with the counselors by making proposals that are, in fact, a good fit with client incomes. And counselors have sometimes found that servicer staff were not familiar with the variety of available solutions and have successfully introduced additional options that worked in creating resolutions that pleased servicers as well as clients.

Counseling staff draw on many sources of information to know whom to contact and how to reach them. One important resource is other counselors, in their own organization and beyond. Respondents talked about the value of regular (usually weekly) staff meetings, one significant part of which was exchanging information about servicer staff who had proved helpful and how to reach them. Then all the counselors might try to work with the same person for loans with that servicer. When a good servicer contact is identified, counselors work hard to understand how he or she likes to see material presented and evaluates proposals; they will then try to submit proposals in accord with those preferences. Counselors also drew on the NeighborWorks-sponsored internet exchange, the NFMC Message Board, to learn from other NFMC Grantees and Subgrantees the names of good contacts at servicers with which their own organizations had less experience. LoanPort also has an escalation component providing contact names and information, as do some state housing finance agencies. Clients can also be a source of information; some clients have been provided with names of contacts in their own initial interaction with servicers.

A number of our case study organizations were active members of state or regional collaborations of public agencies, servicers and lenders, and counseling and other non-profits. Counselors can meet and get to know servicers through meetings of the collaborative and their working groups. Sometimes the servicers' collaborative representatives themselves were good contacts in regular client counseling work, and in other cases they referred counseling staff to people in their respective organizations who were.

Successful counseling organizations have also developed contacts by establishing special working arrangements with servicers which have a particularly large presence in their communities. These arrangements ranged from a continuing series of large-scale borrower/counselor/servicer events (see more in the "Single servicer events" section below), to presence—continuing or occasional—of servicer representatives in their office, to a single decision-point of contact with a lender/servicer which had long been involved with the counseling entity in housing lending and grant-making. Some servicers with heavy mortgage default presences in an area had their own local offices for loss mitigation or provided local training in dealing with them, including sharing contact names and numbers. Servicers refer people to counseling organizations for help, and the organizations build on those relationships as well. Counseling organizations expressed the wish that they had these special links with more of the servicers.

An example of such an extensive working relationship is one between Bank of America and Neighborhood Housing Services of Phoenix (NHSP). NHSP has about 40 percent of its cases with loans serviced by Bank of America. As a result, representatives of Bank of America and NHSP meet bi-weekly, and counselors identify cases where response has been slow or something has gotten stuck. They walk through the aged, new, and closed cases together. Unusual glitches or circumstances are identified. This is, for these parties, their one exception to interacting within LoanPort. Once the identification is done and a way is set to get back on track, the counselors and servicers go back to doing follow-up by LoanPort. NHSP has been able to get very good response after these sessions, often within a day.

Counselors say they "are not afraid to use their contacts" for escalation and other circumstances but that they are careful to use them judiciously so that the servicer knows, when they do call, that there is something amiss and the complaints will be taken seriously. Counseling organizations escalate when "the case deserves special effort beyond what the loss mitigation department can provide." LoanPort and other good electronic tracking systems can be of help in pursuing an escalation. The digital trail of documents, proposals and response is easily shared with an escalation contact, with a minimum of conflicting claims about what has happened so far in terms of whether an application is complete, signed, etc. The focus can then be directly on the decision-making.

In additional to building cooperative relationships, counselors escalate using outside leverage where necessary. Several organizations mentioned the value of referring cases to attorneys to participate in servicer contact, and at least two had used intervention of their State Attorneys General Offices, to gain greater cooperation from servicers. Leveraging these attention-getting mechanisms carefully, organizations have at times been able to translate what starts out as perhaps a potentially combative interaction into longer term increased consultation.

Nonetheless, sometimes strategies other than escalation are preferable, even for a troublesome case. For example, one organization takes advantage of circumstances like one document getting stale to submit a new proposal and, if appropriate, a new set of documents, in hope of receiving a fresh look at a case that might otherwise require escalation. Experienced counselors can often tell when a servicer staff member is of limited competence and is "making it up as they go along rather than giving real answers. Sometimes just calling back and getting a different person is the solution."

Best Practice: Know how servicers are likely to assess a proposed modification, forbearance, or other proposal.

Our counseling organization respondents think that, in most instances, they are able to predict how a servicer will respond to a particular client's situation and proposal, based on a combination of the guidelines provided by some investors (e.g. Fannie Mae and FHA, which are predominant for some organization clients) and their experience with previous clients. Some have created more extensive files and analyses to see what has worked in certain circumstances for different servicers/lenders, in treatment of people without employment income, for example. They try to lay out the key circumstances of the individual client, match those to past experience, and see how their servicer has treated those circumstances in the past, to quickly create a work plan and proposal.

In general, assessing what servicers will approve and making a proposal that works for the client and the servicer is an important counselor goal. One organization prides itself on including a cover sheet with an "ideal outcome" that is also a realistic proposal, and it expects that the servicer's offer will be roughly consistent with their own proposal. But another underlines the importance of negotiating from an initial servicer offer that may well not be satisfactory for the client. In both cases, a key ingredient is a counselor with an understanding of how underwriting works, often from having served in an underwriting or related capacity on the staff of a mortgage lender. The counselor can picture how the servicer's loss mitigation underwriter/negotiator is going to look at an option and use that knowledge to assess what is likely to be both advantageous to the client and feasible from the servicer's and lender/investor's viewpoint. Knowing when the Home Affordable Modification Program (HAMP) may be a viable option has proved a valuable base point for discussions.

Counselors try not to request modifications when a repayment plan will work or to otherwise misstate what the homeowner needs. "The most important thing is providing realistic options that the servicer will entertain," said one respondent. This requires knowledge of servicers, investors, and the specific conditions that make the client unique.

Calculating income has been a particular area of importance, with its own difficulties. Income is obviously critical in establishing that a borrower has both a need for assistance and an ability to repay a modified or otherwise adjusted loan or to meet a repayment plan. Servicers and their staff take different approaches to some specifics of the calculation, and income is frequently the area in which there are discrepancies between counselors' and servicers' assessments of what is feasible. One counseling organization consistently runs a tape on their calculator and submits it, so that the servicer can see exactly how the counselor has computed income and how they may differ in their computations. Taking special pains to explain unusual circumstances, such as special pay in a particular period that does not represent typical annual income, can be important.

Some smaller scale investors pose a particular problem for counselors trying to anticipate what proposals will be acceptable, both in that these investors may take relatively extreme positions in the spectrum of what is considered allowable and in that their standards are less transparent. Counselors' ability to negotiate on the spot may help, but lacking knowledge of investor standards leaves some difficulty without a ready solution. In these cases, counselors said that it is important to advise the client up front about the uncertainty that a given proposal will be accepted.

Overall, HAMP seems to have made predicting servicer and investor responses easier. HAMP's standard affordability ratios and modification "waterfall" have introduced more transparency into the process of obtaining loan modifications. Some counseling respondents said that it should be simpler still: that one would expect, for example, that if 2 percent or higher interest works to produce a 31 percent housing cost to income ratio, the modification would go forward and that that is not always the case. Many counselors perceive that servicers/investors prefer to do proprietary modifications or other workouts instead of HAMP, for reasons that they do not entirely understand. HOPE LoanPort appears to be of some help in getting the mandated first look at HAMP modifications for participating servicers/investors to be made accurately. One counseling organization says that, without LoanPort, when a counselor challenged rejection of a HAMP modification and asked for grounds, the servicer often gave an incorrect answer (based on incorrect information about the case or the HAMP program) or one that just did not make sense. The fact that everyone now knows there is transparency in LoanPort documentation seems to make servicers more careful about giving answers that are accurate and that fit within the program guidelines. Where it is used successfully, it eliminates disagreement about the information that was transmitted and received and reduces a lot of "he-said, she-said" disputes.

Best Practice: Be persistent in follow-up.

Persistence by counselors is central to many aspects of gaining successful foreclosure prevention outcomes. Those include such basics as getting complete, accurate files, and applications to servicers in time to ward off auction sales, despite lost documents and other obstacles; following up to be sure applications are complete, have been received, and are entering review; closely monitoring progress especially for properties nearing foreclosure sale, in collaboration with clients who are also urged to follow up regularly with their servicers; and interacting with clients in keeping each other informed about any word from servicers on status.

But persistence also includes the process of finding solutions in ways related to negotiating efforts with servicers. Successful counselors are characterized as never taking "no" for an answer, if analysis suggests that preventing or mitigating a foreclosure is at all feasible. One manager noted: "I have a background in sales, so I know that getting a 'no' from a servicer is just the start of the negotiation." Counselors propose alternatives to servicer negotiators who have turned down initial proposals or made offers that do not work well for clients. They come prepared to explain options of which less well trained servicer staff may not be aware. Sometimes the options are within normal practices. Much of the work is then about persuasion and persistence to get to a "yes." Other times the effort includes finding another servicer negotiator with more willingness to entertain proposed solutions.

But successful counselors are not afraid also to propose additional kinds of options when they are the only ones that work for their clients, even when they are not within servicer guidelines. Support from colleagues is an important part of such processes of negotiating and innovating. Many of our study respondents spoke of using regular meetings among counselors and managers in their organizations as problem-solving opportunities. Participants share descriptions of problem cases and then exchange experience and ideas about structuring workable solutions for clients and servicers. Alternatives that may have worked with other servicers are tested for application to the latest case. As one respondent described the process:

> Every Friday we hold a training and think tank-like sharing of expertise. This is an open group forum among counselors and managers. People raise problem cases where they may think of recommending a "denial," telling the client that they can't help them (except maybe for exit). The group does an assessment—to see if people have additional ideas, knowledge of other forms of assistance or strategy, other contacts at a servicer/investor, maybe just better ways to put pieces together, perhaps because they aren't already frustrated by the case/client. People also share new knowledge they have gained over the week about sources of assistance etc.

Several executive directors and housing managers highlighted the importance of passionate commitment on the part of counselors, using their clear sense of the importance of what they are doing for people's lives to help them stick with difficult cases. Never giving up until a solution is reached is another description of this commitment. It has been helpful that, with the spreading of LoanPort and other fixes for document/proposal submission and feedback, less of the available energy for persistence needs to be expended on simply obtaining getting a completed file. Even with those advances, however, counseling managers describe themselves and their counselors in language like "bulldogs" and one noted with approval the receipt by a colleague of a prestigious "Charging Rhino" counseling award.

Best Practice: Servicer events, with live contact between servicers, clients, and counselors, can be very helpful if structured properly.

Direct in-person contact between servicers and counselors and homeowners can be valuable if structured properly, according to successful counseling organizations. Large scale events in which a single servicer, or a few, send staff to meet with counselors and assembled clients at a specific local site received decidedly mixed reviews but with an important unifying theme. The key is to put together the necessary pieces for actual loan modifications and other solutions to be reached on site during the event. The key components are:

1. Servicer staff empowered to make actual real-time decisions on proposals, on behalf of servicers, and
2. Clients, with aid of counselors, attending with completed packages of forms and documentation required by the servicer.

With those elements in place, some organizations reported attending larger scale events that produced a combination of significant numbers of solutions during the actual event and servicer/counselor/homeowners poised to complete action promptly in the future. Without those two elements, managers and counselors indicated that events were largely "for show" and inefficient, with only preliminary exchanges that necessarily led borrowers and counselors back to initiating contacts with other servicer staff by phone once the events were over. One observer suggested that the servicer staff could have made more progress by staying in the office and working on cases already in hand.

An additional value of well-run servicer events is the chance for face-to-face counselor/servicer contact to produce working relationships (as discussed earlier) that can benefit their interactions in future cases. Two organizations say that this is a principal purpose for holding the events, "part of an aggressive effort to build relationships."

As described above in the section on developing contacts with servicers, counseling organizations also co-sponsor smaller scale events in which one or several servicers describe their foreclosure mitigation processes and counselors do outreach to those servicers' customers and initiate the counseling process. In a limited set of cases, counseling organizations meet regularly with representatives of high-volume servicers in their areas to review difficult cases and seek plans toward achieving solutions. These kinds of initiatives seem at their best to be parts of organic processes of continuing collaborations between servicers and counseling organizations.

Qualities of Successful Staff

When we provided executive directors and counseling managers an open-ended opportunity to comment on any additional key contributors to success, many commented on the qualities of their counselors. One of the primary specifics was the background of many counselors working in lending organizations in positions as loan originators, underwriters or similar occupations. That that allowed them, as counselors, to think like the underwriter/negotiators in servicers' offices were thinking about the same cases, enabling them to shape proposals and packages, respond to questions, and design alternatives that would be responsive to servicer staff thinking. Fortunately down-sizing on the origination side in financial services firms made such counselor candidates more available than in the past as the need for them grew.

Experience as counselors was also highly valued but sometimes in short supply because of the demands for expansion of the counseling industry. This re-doubled the importance of training. NeighborWorks trainings were well-rated, leading to certifications in counseling. Training was important in helping counselors experienced in pre-purchase work to transition to foreclosure prevention counseling. Because many new programs for foreclosure prevention and mitigation have been rapidly introduced and frequently modified, training in the program specifics—for both public and private loan modifications and other solutions—has been important and eagerly pursued for counselors at successful organizations.

Executive directors and managers also highlighted the value of participating in state and regional foreclosure task forces as opportunities to learn about best practices. They obtained useful information about good work elsewhere, both immediately from task force discussions and networking and later by drawing on the networks of contacts they developed there.

CHANGING SERVICER DECISION-MAKING

Although identified as a major issue, most counseling organizations we spoke to seem to believe that they cannot have much impact on servicer or lender decision-making, in terms of how the servicer evaluates a case. Instead counselors feel they should do everything to meet servicer needs as the servicer defines them, as discussed in the previous issue area. As indicated above, effective counseling organizations do not easily take “no” for an answer, and instead aggressively look for other decision-makers, consider outside-the-box thinking, and pursue additional options. But they do not realistically expect to affect the basic decision calculus of the generally large, distant servicers.

SUCCESSFUL STRATEGIES FOR WORKING WITH CLIENTS

Counselors told us that they can only be as effective as their clients. Given the level of demand for foreclosure prevention services, effective organizations have the ability to get clients to be pro-active and engaged in the process of finding their own solution. This oftentimes starts with requiring clients to complete paperwork and send in documents before meeting with a counselor. Counselors described this process as a filter—it ensures that clients, when they meet with a counselor, have already started to buy into a process that will require the owner to follow-up with his/her servicer.

In addition, successful organizations provide realistic evaluations to their clients regarding the chances of obtaining loan modifications and other retention solutions. These evaluations include a candid analysis of a client's income and expenses. The key objective is for the client to understand his/her financial situation, and the desirability under the client's circumstances to remain in the home. To conduct such an assessment, the counselor must gain a client's trust.

It does not appear that any specific method of counseling (telephone or face-to-face) is required for an organization to achieve successful outcomes. Nor does getting someone into counseling early seem to be a factor—although it is preferred by counselors to see clients before problems start. The following discussion provides more details about two areas that representatives indicated were most important when working with clients: that (1) clients bring all required information to their initial one-on-one counseling session and that (2) clients take ownership of the foreclosure counseling process.

Best Practice: Ensure that clients bring all required information to the initial one-on-one counseling session.

Counselors stressed that servicers will not make any decision on a client's proposed loss mitigation solution, which often includes a request for a loan modification, directly. To make such a decision, servicers often require authorization forms from lenders. Budget and hardship letters are also essential to getting a successful outcome for a client. These requirements are essential, but can vary by servicer. Therefore, counseling organizations have initiated a number of strategies to ensure that clients bring the needed documents to the initial one-on-one counseling session so that a counselor can contact a client's servicer during that session.

Because there are so many required items, counseling organizations have developed checklists that are made available to clients either by mail or on the organization's website. And, because servicers may have different requirements, counselors provide clients with servicer-specific checklists, which have been developed based on experiences working with particular servicers. For example, one organization's checklist requires a client to provide the following items to his/her counselor before allowing the client to begin counseling:

- Truth in Lending Statement;
- HUD-1;
- Most recent correspondence with the client's lender;
- Proof of income (social security, disability, unemployment, etc.);
- Most recent (last 30 days) pay stubs;
- Current bank statements for the past 60 days;
- Most recent W-2s, 1099s and other earnings statements;
- All utility bills;
- Physician's statement, if applicable;
- Termination of unemployment benefits, if applicable;
- Copy of valid driver's license; and
- Most recent year's income tax return.

This organization requires clients to provide HUD-1 and Truth in Lending disclosures for their current mortgage to ensure that the counselors have accurate information about the client's loan to identify potential loss mitigation solutions that are specific for different types of loans (such as those insured by the FHA).

As discussed earlier, while many organizations indicated that they fax forms to loan servicers, some organizations use LoanPort to transfer documents to their clients' servicers. One advantage of LoanPort is that it provides information about the requirements for each servicer that allows documents to be transferred to them via LoanPort. One counseling organization using LoanPort said that the interface is very effective because it will not allow a counselor to submit documentation unless all of the required information for a given servicer is present, ensuring that clients submit complete applications for loss mitigation solutions.

Some organizations require that a client attend a group workshop during which, among other things, clients are informed about the items that they must bring to their initial one-on-one session with a counselor. As discussed later, these group sessions also help clarify the services that counselors will provide to clients and, crucially, the expectations that organizations have of their clients during the foreclosure prevention process.

Respondents stressed that they will not allow client to receive one-on-one counseling unless they have all of the required documents. Therefore, effective counseling organizations will designate a staff member to review the documents brought by a client to a counseling session, and will ask the client to return with any missing information. Some organizations ask that clients send the required documentation in advance of the counseling session (as compared to bringing the documents to the meeting) to allow time for a staff member to review the client-provided information.

Best Practice: Work with clients so that they become "empowered" and take pro-active steps to manage the foreclosure prevention process to a successful conclusion.

Because of the high demand for services, counseling organizations do not have the resources to manage all aspects of a client's case. Therefore, counselors all said that it is critical to work with a client who is informed about the process of getting a loan modification or other solutions, has a realistic understanding of the options available given the client's income and expenses, and will be pro-active in providing loan servicers with the required documents that are needed to reach a decision.

Counselors said that clients must clearly understand their roles and responsibilities during the foreclosure prevention process. Many organizations, as a first step, provide details about the foreclosure process during an initial group counseling session. Clients are informed about potential loss mitigation solutions during these group sessions so that, before having their one-on-one session, they have an understanding of potential options available to them. The group sessions help the clients to start thinking about a preferred solution, which may not include retaining ownership of their home. By having this information beforehand, clients, according to one counselor, "get down to business in the [one-on-one counseling] session."

Even though organizations require that their clients bring complete packages to one-on-one sessions, clients must often follow-up with servicers to provide updated information. Organizations instruct clients that they must be pro-active and follow-up with the servicer, sometimes telling clients to call their servicer on a weekly basis while their loss mitigation proposal is being considered. These follow-up calls are usually outlined in an action plan that is developed by the counselor with input from the client and based on the initial call with the client's servicer. Therefore, counselors make every effort to make a client understand the importance of implementing all of the required steps in an action plan. One counselor said that he tells clients that the action plan's steps (such as submitting specific documents) do not reflect the counselor's preferences, but rather are based on the servicer's requirements. This is an important distinction because the client must understand that the process is largely driven by a specific servicer's requirements.

Another strategy discussed by counselors is to focus on potential solutions, rather than allowing clients to spend an inordinate amount of time reviewing the factors that led to their financial difficulties. Counselors said that many clients are in crisis: they may have recently lost their job or suffered a large decline in income. They may also be facing severe medical and family issues. Some clients want to tell their story, but counselors said that this may be counter-productive. As a result, counselors said they will sometimes short-circuit clients' discussions about their reasons for financial difficulty, and manage the conversation so that there is more of an emphasis on talking about prospective actions that can ease the client's mortgage difficulties.

Counselors said that by providing clients with information about the process, establishing expectations and treating clients with respect, but also dealing forthrightly with financial issues, they establish a relationship in which a client will be motivated to perform follow-up steps required to achieve a particular loss mitigation solution. Organizations instruct their clients to inform counselors about options proposed by servicers after the initial counseling session so that clients receive the most appropriate solution possible. By facilitating an empowered client, counselors are better able to achieve successful outcomes for their clients.

DEALING WITH MAJOR INCOME REDUCTIONS

Counselors indicated that most of their clients seek foreclosure prevention services because of a drop in income, often from a job loss. Serving these clients is especially challenging because servicers are more likely to approve a loan modification for clients who can document that their income reduction is temporary. In fact, one counselor said that he/she doesn't even contact servicers for clients who are unemployed because of the low probability of getting any modification approved for clients with no income.

Clients with large income reductions are, according to one counselor, "shattered," making counseling more complicated. In any modification, servicers use a *net present value* calculation that estimates the cash flow expected from a modified loan compared to proceeds realized in a foreclosure. If incomes are reduced too much then lenders will foreclose because of a higher likelihood of an owner redefaulting on the modified loan. Clients who cannot demonstrate that their income will soon return to pre-unemployment levels will be less likely to be approved for a loan modification. Nonetheless, there are strategies that counselors use when working with clients facing a reduction in income.

Best Practice: Conduct a detail crisis budgeting analysis with clients.

The first step when working with clients who have experienced an income reduction is to develop a crisis budget. This budget is based on a client's current income, which usually is well below the client's income when he/she received the mortgage initially. Although there are occasionally possibilities for increasing a client's income by renting rooms in the home or taking a second job, crisis budgets typically focus on reducing a client's expenses so that they are more in line with their current income.

Reducing expenses for anyone is a difficult task: such changes result in a drastically altered lifestyle. As one counselor said, developing a crisis budget "is when the tears come out, particularly when private schools must be left, or sending money to children [is eliminated]." Counselors said that it is not their place to recommend specific spending reductions; rather, they work with the client to itemize all of their monthly expenses, and then start a discussion about what can be cut back.

For example, one counselor said that she shows a client how much spending has to be reduced to get an existing mortgage payment down to 31 percent of current income. Another counselor's objective is to get the client to understand that, given the income decline, the client needs to spend money more carefully. To achieve this objective, the counselor works with clients to identify money spent on areas (such as meals eaten out and cell phones) that could be pared back.

Counselors said that one benefit of developing a crisis budget is that the process acts as an opening to credit counseling by prioritizing expenses. By putting expenses and income down on paper, clients can easily see how they are spending their money, which they can continue to monitor even after a client's income increases after an unemployment spell ends.

Best Practice: Pursue forbearances.

Counselors said that getting loan modifications approved for clients who have no income is problematic. To the extent that a job or income loss is temporary, counselors can pursue forbearance agreements with servicers. Counselors reported having some success in getting servicers to approve forbearance agreements, but only under limited circumstances. In particular, counselors said that a forbearance plan can work well for people who expect to be re-employed, but such an approach is not generally appropriate for clients who are on a fixed income. There can be exceptions, however, which again emphasizes the importance of outside-of-the-box thinking. One counselor, for instance, was able to negotiate a forbearance agreement for a client who lost a spouse and had to repay survivor benefits sent in error. The servicer agreed to a forbearance plan under which loan payments were suspended until the repayment was complete and the client's social security payments returned to their normal levels.

Best Practice: Where available, make use of Hardest Hit Fund and other local rescue funds.

Recognizing that job losses are driving many mortgage payment problems, the federal government established the Hardest Hit Fund (HHF) in February 2010 to provide targeted aid to families in states experiencing high rates of unemployment. The program provides a limited level of assistance (established by states) with the expectation that owner will eventually be able to replace lost income. The assistance is recorded as a second-lien mortgage that is forgiven over time.

The program was just starting when we conducted our interviews in the spring of 2011, so little experience on the use of the program was available. Counselors anticipated that the HHF, based on its eligibility criteria, would assist relatively few NFMC clients. Counselors expected that relatively few clients would be eligible because owners who took cash out in their refinance were not eligible. Moreover, only owners who are unemployed or underemployed can receive HHF assistance, further restricting the number of clients who can potentially receive HHF loans. Overall, counselors said that the program has been rolled-out very slowly, and they expect it to have only a limited impact.

In some locations, counselors can seek out emergency funds from state and local sources for their clients. In one city, for example, a local fund provided loans up to $8,500 for clients experiencing hardship. Funding for this program came from mortgage recording receipts. This program has had limited impact, however, because loan recipients must show that they have recovered lost income and could afford to make payments on their mortgage. Another city's rescue fund could provide recipients with funding for only one payment on a current loan, which reduced the program's effectiveness.

EARLY ENTRY TO COUNSELING

Most clients seek counseling before actually obtaining a loan modifications, often with applications in hand and lack of progress in getting a servicer response. Hearing about HAMP and wanting to apply is a trigger to many borrowers to seek counseling. Counseling organizations we spoke to did not highlight coming to counseling before a modification as a key to success, however, perhaps because it was so common. They added that small variations in how delinquent a borrower was upon entry to counseling (current vs. one missed payment, for example) was not a major factor in reaching a successful outcome. In more extreme cases, however, mortgages on houses very near to foreclosure sale were a problem if there was literally no time to postpone the auction and mortgages over about six months delinquent were tougher to work out because of the growing scale of cumulative arrearages.

This broad view is somewhat at odds with our statistical analysis, which finds many homeowners coming to counseling after obtaining a modification and a strong relationship between length of delinquency spell at counseling intake and mortgage outcome. Perhaps the decrease over time in servicer/lenders providing "modifications" that do not lower mortgage payments decreased the importance over time of getting to borrowers before they obtained modifications. Perhaps the ability of the organizations we interviewed to move modification and forbearance applications to and decision-making by servicers along more rapidly than others reduced the importance of the delinquency issue.

The organizations we interviewed perform outreach to make people aware of the option of getting help with counseling. And some highlighted the importance of "pre-purchase" and "post-purchase, pre-delinquency" education and counseling to help homeowners avoid trouble.

EXPANDING CAPACITY

Representatives of the grantee and sub-grantees said that they all experienced large increases in demand for their services at the start of the foreclosure crisis in late 2007/early 2008. Consistent with our web survey findings, these organizations increased the number of counseling FTEs by about 1 to 2; these organizations typically are able to serve their clients with no more than 4 FTEs.

Rather than hire a large number of counselors, and be at risk if funding declined, organizations initiated a number of strategies to increase their capacity to serve more clients. The most common are summarized below:

- Started group workshops convened both during the day and also evenings at which counselors provided information to groups (sometimes up to 20 clients). In addition to providing information to clients at these sessions, some organizations asked that clients complete forms collecting information about a client's loan, income and expenses. Some organizations complete only Level 1 counseling at these sessions (i.e., initial consultation to create a foreclosure mitigation plan), and ask that clients schedule a more intensive one-on-one counseling session.
- Tasked administrative staff to work with clients when they make initial contact with the organization on understanding the information that will be required at the

first counseling session. This is viewed as a critical step to ensure that clients do not have to return to counselors after the initial appointment.

- Provided extensive training for counselors, given the issues related to bringing about good outcomes for clients. Some of this training is provided by third-parties, such as NeighborWorks. In addition, organizations cited the importance of providing opportunities for counselors to share ideas amongst themselves.
- Recruited volunteers, some who have particular expertise in mortgage lending, to supplement counselors in conducting outreach and administrative activities.

APPROACHES TO HAMP

Most of the organization representatives reported that relatively few NFMC clients had received temporary or permanent loan modifications under the HAMP program. The major effect of the program was that many clients contacted organizations to find out information about HAMP, which was a positive impact of the program. In addition, as noted earlier HAMP has had a beneficial effect of increasing the transparency and standardization of loan modifications, which seems to have had a broader benefit for homeowners, even those outside of the program.

On the other hand, representatives said that many servicers offered clients proprietary loan modifications even if a client was eligible for the HAMP program. These interviewees said that servicers delayed getting their clients decisions regarding HAMP applications, and it was unclear what factors were used to make a decision once it was reported to the client. These findings are consistent with our more extensive analysis of HAMP-related questions asked in the broader web-based survey.

CONCLUSION

Representatives of successful foreclosure prevention counseling organizations whom we interviewed highlighted specific strategies to deal with issues that they, along with our web-based survey respondents and other informed observers, had identified as important in producing good outcomes for their clients. These strategies included aspects of building their own capacities—human, system, and technological—to meet greatly expanded needs for service; delivering complete, document-supported applications and proposals for solutions to servicers; developing links to and relationships with servicer staff; pursuing diverse negotiated outcomes that meet client needs; empowering clients to take necessary responsibilities for themselves, working with clients on crisis budgeting and financial management; and employing specific payment structures and forms of financial assistance. There is much that other counseling providers can learn from these organizations, including many things that the interviewees are careful to say they themselves learned and developed in the course of doing their work. We have laid out in this report those strategies and tactics the counseling organizations could help us to specify.

Notably and logically, counseling organizations concentrated their attention on strengthening their practices in areas relatively more under their own control and that of their clients. They focused on such things as re-organizing their operations to accelerate the flow of clients into assistance and solution as service demand rose, assuring complete documentation for their cases despite significant disarray in tracking files at the servicers' end, finding and building relations with helpful servicer staff and working around those creating obstacles, persistent posing of options in the face of solutions being rejected by servicers, gaining active participation by clients in saving homes, and helping clients to create crisis budgets in the face of negative economic conditions and limited forms of financial assistance.

They did not expect to be able to fundamentally change servicer decision-making calculus, improve servicer capacity to process cases, generate major state and local rescue funds and other systems, revise the federal HAMP program, or of course change the macro level employment picture—although they did have ideas about how each of those things could be usefully improved. Counselors worked hard with the tools they had and were constantly striving to hone and improve them, where they could. Intermediaries—including program administrator NeighborWorks, state housing finance agencies, and others—augmented counseling organization practices through training, technology (notably HOPE LoanPort™), and other supports. Smart hiring choices of people with lending experience, and a commitment to internal and external training, made importance differences in many of these areas. And the HAMP program helped create solutions directly and helped set the bar for mortgage solutions.

Well-performing counseling organizations showed specific ways they could make a difference in serving their clients, enhancing the impact of the total population of NFMC organizations. They adjusted quite nimbly to larger external constraints but inherently encountered some limits to the reach of even the best of practices they controlled. Still, there are many tested and feasible opportunities for strengthening results illustrated in the work of the organizations we interviewed.

APPENDIX:
CASE STUDIES OF TWO ROUND 1 NFMC COUNSELING AGENCIES

CONSUMER CREDIT COUNSELING SERVICES OF DELAWARE VALLEY

Established in 1966, Consumer Credit Counseling Services of Delaware Valley (CCCSDV) is a 501(c)3 organization that provides a wide range of financial education and counseling services to clients across the Philadelphia region. The organization is a member of the National Foundation for Credit Counseling (NFCC), a national organization that, according to its website, "…promotes the national agenda for financially responsible behavior and builds capacity for its Members to deliver the highest quality financial education and counseling services. The NFCC is the nation's largest and longest serving national nonprofit credit counseling network, with more than 100 Member agencies and nearly 850 offices in communities throughout the country."[4]

CCCSDV started its efforts to address the Philadelphia-area's delinquency problem in 2004, when it worked with the US Attorney's Office and the Delaware County Anti- Predatory Lending Group to develop a program which addresses predatory lending. This program has been delivered to 1,696 residents in the organization's coverage area since it began in 2004.

CCCSDV offers a number of housing counseling services, covering pre-purchase, pre-rent, bankruptcy, reverse mortgage and foreclosure prevention. Overall, in 2008 CCCSDV provided housing-related counseling services to 8,721 clients, up from 3,842 clients in 2007. Located in 15 offices, with a main office in center city Philadelphia, CCCSDV now has a $4.4 million budget and employs 33 full-time counselors. The organization, in Round 1, received about $800,000 in NFMC funds as a Subgrantee to the Pennsylvania Housing Finance Agency (PHFA) and NFCC. In Round 2 CCCSDV received NFMC awards of about $1.4 million from both of these organizations.

CCCSDV applied for NFMC program funds as part of an organization-wide effort to increase its capacity so that it could better respond to higher levels of demand for its services. The organization has a good working relationship with the PHFA, and is a member organization of NFCC. As a result, management decided to apply for NFMC program funds (in both rounds) as a Subgrantee to both PHFA and NFCC. CCCSDV benefits from the services provided by the grantees, including training opportunities and promotional materials developed and paid for by the PHFA and NFCC that helps to publicize CCCSDV and raise awareness among Philadelphia-area residents about its counseling services.

NFMC funding allowed CCCSDV to increase its presence in the region: the organization opened five satellite offices (which contain between 1 and 3 counselors) in the Philadelphia area between June 2008 and April 2009. Moreover, CCCSDV hired 13 additional full-time counselors between May 2008 and December 2008, and is looking to hire three additional full-

[4] http://www.nfcc.org/about/index.cfm

time counselors. This increase in capacity allowed CCCSDV to meet its proposed 2008 NFMC counseling volume goals, and so did not require an extension to its contract. In fact, CCCSDV exceeded its 2008 target because some PHFA Subgrantees were not able to meet their 2008 targets, and PHFA did not request an extension for its Round 1 contract. As a result, PHFA made available additional funds to CCCSDV so that all of PHFA Round 1 counseling funds could be used before December 2008; the organization provides only Level 3 counseling under NFMC.

As detailed below, CCCSDV provides all of housing-related counseling services through one-on-one, in-person sessions. This counseling method has not changed even though demand for such services has increased dramatically since 2006. The overall strategy used by CCCSDV to meet the increased demand for housing-related counseling services was to hire more counselors, so that the organization had the capacity to provide the same level of intensive 1-on-1 services to more people. Because the organization had a strong management team with a background in operations management, CCCSDV was able to grow its capacity without any major delays or problems. Through its activities, CCCSDV's counselors estimate that they are able to secure forbearance from the client's servicer for about 40 percent of clients, and about 25 percent of clients may, after the initial forbearance period, be able to qualify for a loan modification. Most of the loan modifications reduce a loan's interest rate, very few loan modifications result in a principal reduction.

Practices for NFMC Program Service Delivery

This section describes the process used by CCCSDV to deliver foreclosure prevention counseling services. It begins with sourcing, then describes intake and then details CCCSDV's counseling practices.

<u>Sourcing</u>

There are a number of ways that CCCSDV clients learn about the organization's housing counseling services. The organization participates in a range of community outreach events. In addition, CCCSDV, in partnership with local television channels, sometimes operates a call bank. During these call-banks, the television station runs the organization's phone number on the screen, and CCCSDV staff field calls during the broadcast.

As discussed later in this case study, CCCSDV opened some of its satellite offices in space shared with social service providers, such as Catholic Services, United Way and Bucks County Opportunity Council. These organizations provide referrals to CCCSDV, as their clients may come in for a non-housing related reason, but the social service agency staff member recommends that the person may benefit from foreclosure prevention counseling. The referrals go in both directions, as CCCSDV counselors may recommend that a client seek services from the social service agency.

CCCSDV also receives referrals from recipients of Act 91 notices. These notices are sent to homeowners whose lender has initiated a foreclosure. The notice tells recipients that they may be eligible for a loan under the State of Pennsylvania's Homeowner's Emergency Mortgage Assistance Program (HEMAP), which provides loans to eligible borrowers so that they can cure a delinquency. All Act 91 notice recipients are provided contact information for a housing counseling agency in their county.

The City of Philadelphia, as part of its Residential Foreclosure Diversion Program (the Diversion Program) that was established in April 2008[5] has a hotline that residents can call to discuss foreclosure prevention options. CCCSDV receives referrals from the hotline who contact the organization to schedule an appointment.

Legal assistance organizations received funding in Round 2; CCCSDV is now receiving an increased number of referrals from these legal assistance grant recipients. Even more recently, CCCSDV has received referrals from servicers and lenders participating in the new Homeowner Affordability and Stability program. Under the program, a lender/servicer refers a borrower who has a back-end ratio in excess of 55 percent for counseling; lender/servicers have started referring clients to CCCSDV, and this volume is expect to increase as more owners seek loan modifications under the program.

CCCSDV uses two more outreach efforts, but these services are not funded by the NFMC program. The first program was initiated by Radian Guaranty (Radian), a Philadelphia-based mortgage insurance company, which engaged CCCSDV to perform early delinquency counseling for clients whose mortgage is insured by the company. Under the terms of the engagement, Radian provides CCCSDV with a list of 2,000 delinquent borrowers each month. CCCSDV is required to make six attempts to contact each borrower. For all clients contacted under the Radian engagement, CCCSDV prepares a loss mitigation package and forwards it to the mortgage servicer; this package includes a summary of client income, an itemized budget, a personal balance sheet, a copy of the client action plan prepared with the counselor and hardship or circumstance information from the client. In 2008 CCCSDV completed 2,089 counseling sessions with borrowers contacted through this engagement.

CCCSDV, in a second non-NFMC program funded initiative, operates the Saving Homes, Saving Neighborhoods initiative with The Reinvestment Fund (TRF), a Philadelphia-based community development financial institution. Under this program, which started in the Fall of 2008, TRF used foreclosure data provided by the City of Philadelphia to identify two neighborhoods (Southwest Philadelphia and West Oak Lane that are at risk of increasing levels of foreclosure activity. CCCSDV has two counselors assigned to these neighborhoods that work with community organizations to publicize the availability of foreclosure prevention

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[5] A full discussion of the Diversion Program is presented in Section 8 of this case study.

counseling. Area residents can receive counseling services from CCCSDV staff either in their homes or in local community group offices.

Intake

All clients contact CCCSDV through an 800 number. After an automated screen, callers are routed to a customer service representative (CSR). CCCSDV has 10 full-time CSRs, up from 6 two years ago. CSRs answer calls from between 8:00 and 6:15, Monday through Thursday and from 9:00-4:45 on Friday.[6] According to CSRs, many people do not call in for foreclosure prevention counseling. Some clients call in about credit card debt or some other financial crisis. According to CSRs, many callers are too embarrassed to request foreclosure counseling right away, or may be more focused on a non-housing related credit issue. As a result, CSRs ask every caller about whether he/she owns a home and, if the caller is a homeowner, if the mortgage is current. For callers who have a delinquent loan, the CSR may suggest that the caller come in for foreclosure counseling, which will include general credit counseling.

During the call, in addition to asking about a caller's mortgage status (if the caller is a homeowner), CSRs request that the caller provide their name, address, email (if any) and type of counseling service requested into a Debt Management Solutions (DMS), the database system that CCCSDV uses to track the status of all of its clients. After entering a caller's information into DMS, CSRs schedule an appointment for the caller. It is important to note that every caller is scheduled for an in-person counseling session. CSRs do not triage callers; instead, CSRs discuss the types of services available from counselors and encourage callers to attend a counseling session.

DMS, based on the caller's zip code entered into the system by the CSR, shows the next available appointment for the three closest locations to the caller's home zip code. The CSR, however, may suggest that the caller consider an earlier appointment at another location; in addition, some callers request that a session be scheduled at a location that is nearer to his/her workplace. Most appointments are scheduled for a date that is within two weeks of the call.

All clients are sent an appointment packet either by mail or email. The appointment packet has information about CCCSDV and details the information that the client should bring to the initial counseling session. In addition the application packet requests that the client complete monthly budget, monthly income and a personal balance sheet forms in advance of the counseling session, and bring these forms to the session. The CSR tells the client what the application packet will include, before ending the call. CSRs said that intake calls typically take between 10 and 30 minutes. Oftentimes callers are anxious about their financial problems, and

[6] The 9:00 start on Friday allows CSRs to attend a weekly staff meeting.

the intake calls can be very emotional for the caller. CSRs do not try and hurry a caller; rather, they provide sufficient time for a caller to tell the CSR the reasons for calling CCCSDV.

Counseling

The next step in the process for CCCSDV clients is to attend a 1-on-1, in-person counseling session. These sessions are scheduled for two hours, and each counselor has between 2 and 3 appointments per day. Counseling sessions are scheduled for between 9:00 AM and 7:00 PM, Monday through Friday and 8:00 AM through 3:00 PM on Saturdays. In addition to seeing clients in person, counselors make calls as part of the Radian engagement, discussed earlier.

A session usually starts with the counselor verifying the information provided by the client in his/her application packet. Counselors pull credit reports for every client in order to determine if there are any debts not reported by the client in the application packet. Counselors said that some clients fail to report other properties that clients may own, or recent big-ticket purchases (such as a car) that may influence a servicer's decision about a requested loan modification. Therefore, counselors believe that it is critical to have as complete a picture of the client's financial circumstances as possible, and the information on a client's credit report is the best way to obtain such information.

Once the income, expense, asset and liability information is verified, the counselor developed a crisis budget with the client that minimizes expenses. The counselor also works with the client to develop potential sources of additional income. Based on a realistic projection of income and expenses, the counselor then reviews potential options with the client, which may include a combination of retention options (loan modifications, repayment plans and forbearance) and non-retention plans (short-sale or deed in lieu).

The counselors stressed that it is critical to be up-front with client about their situation and available solutions. For example, many servicers, according to counselors, require that a property be listed for sale for a period of time (it may be as long as six months) combined with a hardship letter before considering a short sale. Some clients who prefer a short-sale option may not meet these criteria, and so the counselor would have to discuss other available alternatives. In every case the counselor develops a retention option (usually a loan modification with a reduced interest rate) that includes an affordable payment, given the client's budget before contacting the servicer. In addition, for clients that are eligible for a HEMAP loan, the counselor completes an application with information provided by the client.

The counselor calls the client's servicer after verifying all of the information provided by the client and having reviewed potential options with the client. CCCSDV's counselors said that they have phone numbers for contacts in nearly every loan servicer's loss mitigation department. This list is updated by counselors as they encounter new servicers, or if a loan servicer reorganizes itself; counselors send each other updated contact information for servicers via email and also share this information at weekly staff meetings.

All of the CCCSDV counselors said that, for nearly all clients, they could get through to a loss mitigation person. In some cases the counselor, with the client waiting, will be on hold for more than 30 minutes. Counselors did say that servicers have increased their capacity to field calls. Last summer, according to a counselor, some servicers had overseas call centers that were staffed by people reading from scripts, and were not helpful. In these cases the counselors would ask for a supervisor or request to be transferred to the loss mitigation department. In fact, one counselor knows the location (Dallas) of a major servicer's Advocacy Team, which is responsible for receiving telephone requests for loan modifications, and is able to get through with very little waiting time.

In most cases the counselor gets through to the servicer's loss mitigation representative during the two-hour session. Although some servicers tell the counselors that they cannot take information over the phone, CCCSDV counselors said that they are able to determine a feasible retention solution for at least 40 percent of their clients. This solution may be forbearance or a repayment plan, but it oftentimes is coupled with a loan modification. However, counselors stress to their clients that any solutions proposed by the servicer's loss mitigation representative over the phone is not final; the servicer can only make a final decision once it has received all of the required information from the client.

After completing the initial call with the servicer's representative, the counselor completes an action plan for the client. The action plan provides the client with specific instructions and dates for follow-up activities, which often include a deadline for sending the required materials to the servicer. If a client brings all of the required information to the initial counseling session, then the counselor can send the information to the servicer on behalf of the client.

However, counselors stressed that clients must take ownership of their case even if the counselor submits all of the information after the initial counseling session to the servicer. There are inevitable requests by the servicer for updated information, and the client will usually have to respond to these requests, and so must know where and how to send information to the servicer.

Clients, once their initial counseling session ends are asked to complete a counseling exit survey, which asks clients to rate the services that they received from the counselor, the primary concern for the client when he/she visited CCCSDV that day, what took place during the session and what items are most important on the client's action plan. These data are analyzed on a quarterly basis and reported to counselors and CCCSDV's senior management.

Many clients return for follow-up counseling after the initial two-hour session. For example, clients whose HEMAP applications are denied (only about 20 percent of HEMAP loan applications are approved, according to CCCSDV staff) return to explore other options or to file an appeal of their denial. Sometimes clients return to discuss the loan modification proposed by the servicer, based on the information provided after the initial counseling session. CCCSDV, under NFMC Round 1's grant could not bill for these sessions (the session was coded as a Level 3 counseling unit and used by CCCSDV to request payment from either PHFA or NFCC).

Other clients, who live in Philadelphia return to CCCSDV once they receive notice that their case has been sent to the Diversion Program. This notice informs the owner that he/she should apply for a HEMAP loan and, to do so, contact a housing counseling agency. Some of these clients already received services from CCCSDV. For these clients a CCCSDV counselor completes a proposal, which outlines terms of a loan modification that is affordable, given the owner's financial circumstances and sends the proposal to the servicer's attorney no later than 10 days before the scheduled conference. Diversion Program hearings take place every Thursday, and a CCCSDV counselor goes to the court house and handles every CCCSDV client's case. This usually requires that the CCCSDV counselor, with the client, discuss potential options with the servicer's attorney. The CCCSDV counselor usually negotiates on behalf of 15-20 clients out of a total of about 200 cases on any week's docket.

Based on the CCCSDV counselor's experience with the Diversion Program, only 2-3 cases per week that the counselor negotiates cannot be finalized with the servicer's attorney and so must be settled by a judge *pro tem* (JPT). The most frequent outcome (in about 70 percent of the cases) is that the servicer's attorney agrees to a loan modification; the remaining 30 percent of the cases are equally likely to result in a non-retention solution (a short sale or deed-in-lieu) or a foreclosure. Foreclosures, according to CCCSDV counselors, typically are for clients who did not bring information to the hearing or did not comply with any of the notices sent to him/her in the past.

Effective Strategies in Increasing Scale of Service Delivery

The proposed increase in foreclosure prevention counseling services under NFMC required CCCSDV to address three major challenges: (1) recruiting and training additional counselors; (2) increasing the number of CCCSDV satellite offices; and (3) altering CCCSDV's data management system so that it could upload data on clients served into Housing Counselor Online (HCO), the system used by the PHFA to meet NFMC reporting requirements. The following discussion details the strategies used by CCCSDV to meet each challenge.

<u>Recruiting and Training Additional Counselors</u>

CCCSDV recruited all of its additional 13 counselors hired since NFMC started by placing advertisements in local newspapers and on websites. When evaluating applicants, CCCSDV looks for people who have previous experience either in banking or in providing financial counseling services for other social service agencies. One counselor hired under

NFMC relocated from another NFCC organization in Florida and two counselors already worked for CCCSDV as non-housing counselors.

Once hired, all counselors receive four weeks of classroom-only training that is led by CCCSDV senior staff and other counselors. CCCSDV counselors do not specialize in one type of housing-related counseling. Therefore, the purpose of the organization's new hire training is to provide information to each new hire that will allow them to do all of the housing counseling services offered by CCCSDV to its clients.

CCCSDV developed the classroom curriculum and the materials distributed during the classroom training. (CCCSDV is now using materials adapted from NeighborWorks training manuals.) In the classroom training counselors receive learn to provide all of the housing-related services (including foreclosure prevention) offered by CCCSDV. After four weeks of classroom training, recent hires are partnered with a senior counselor who the trainee observes for about two weeks. Hires with previous counseling experience are scheduled to provide 30 appointments a week; hires without such earlier experience are initially given a partial (less than 30 appointments in a week) calendar for a few weeks.

The classroom training was instituted by CCCSDV to accommodate the large number of trainers hired under the NFMC program. Previously, CCCSDV would have no more than one new hire to train at a time, and so the person would be trained by working with a senior counselor for four weeks. Because CCCSDV hired 13 counselors under the NFMC program, it was not feasible for multiple people to be partnered with a senior trainer. As a solution, CCCSDV implemented its classroom training program that required staff to develop training materials and take on teaching responsibilities.

Increasing the Number of CCCSDV Satellite Offices

Prior to receiving NFMC program funds, CCCSDV had a main office in Center City Philadelphia and ten satellite offices located in the region. Because clients provide zip codes, and these data are entered by CRS staff into the organization's data collection system, staff could analyze the areas served by CCCSDV. Based on this analysis, CCCSDV determined that it needed to increase its geographic footprint in the region, especially in areas that required foreclosure prevention services.

Based on its analysis of clients' zip codes, CCCSDV opened five new satellite offices between June 2008 and April 2009 offices in Morristown, North Philadelphia, Salem, Chester PA and Springfield. The Morristown site was selected because of the relatively small number of clients coming from that community, even though the organization perceived a need to serve the town.

CCCSDV estimated that market-rate rents for space required to house between 1 and 3 counselors at each of the five new satellite sites ranged from between $700-$900 per month. This would increase the organization's expenses by about $50,000 per year, and require

CCCSDV to enter into long-term leases for commercial space. To reduce these risks, CCCSDV partnered with local social services agencies in North Philadelphia (Casa de Carmen), Salem (United Way) and Springfield (Catholic Services). At these three sites CCCSDV pays nominal rent (about $100 per month, which is accounted for as a donation to the partner organization) which saves CCCSDV about $25,000 year, and does not require the organization to sign a long-term lease at those sites. In addition, as discussed earlier, the partner social services organizations are a source of referrals to CCCSDV in those three communities.

<u>Altering CCCSDV's Data Management System to Allow for Interface with Housing Counselor Online (HCO)</u>

CCCSDV uses Debt Management System (DMS) software for tracking client production process flow and for recording client-level data. This software system was developed (and is changed, periodically) by Cooperative Processing Resources (CPR), which is an association that is owned by a cooperative membership consisting of credit counseling agencies. CPR's primary function is the maintenance and technical support of the DMS and the development of new technology to support its mission. CCCSDV purchases DMS licenses for its computers as part of a 50-member cooperative of NFCC organizations.[7]

PHFA requires that its Subgrantees under NFMC report client-level data through Home Counselor Online, which is a software solution made available by Fannie Mae to collect client-level information. Fannie Mae paid for the costs associated with allowing DMS to upload data directly into HCO, and so PHFA's data reporting requirements could be met by CCCSDV with little expense. The key for CCCSDV is that they use software as part of a cooperative, and so the organization can request that CPR make changes that improve DMS's functionality; these improvements are shared by all NFCC organizations that have a license to use DMS. By being a member of the cooperative, CCCSDV does not need to have its own software development staff; this function is performed by CPR.

Strategies Best Able to Prevent Foreclosures

CCCSDV's strategy to help people avoid foreclosure is to provide intensive 1-on-1 in-person counseling to clients who bring as much of the required information as possible to the first counseling session. As a result, hiring a sufficient number of counselors so that the organization can schedule appointments with clients no later than two weeks after they contact the organization is a crucial strategy used by CCCSDV to help people avoid foreclosure. In addition, CCCSDV only contacts a client's servicer once it has all of the information that it needs to determine a realistic budget. Therefore, CCCSDV sends each client an application packet that details the types of information that he/she should bring to the session. According to a

[7] CCCSDV pays about $1,000 per year per computer for the license to use DMS.

client interviewed for this study, it takes about a day to gather all of the information and complete the forms included in the application packet.

Completing the application packet is one step that CCCSDV uses as part of its strategy to get the client to take ownership of the foreclosure prevention process. Although CCCSDV's counselors contact a client's servicer during the initial counseling session, the client may have to complete follow-up tasks in order to get a loan modification approval from a lender. Moreover, some follow-up items require a client to contact other parties, such as utility providers and social service agencies. It is much more likely, according to CCCSDV counselors that clients will follow-through with these activities if they have bought into the process relatively early.

CCCSDV, however, realizes that it is difficult for clients to know what steps to take once the initial counseling session is over. Therefore, every client receives a detailed action plan that provides clients with a "road map" of next steps. Most times a client has to send additional information to a loan servicer. Therefore, action plans include the servicer's fax number and the procedures that clients should use when faxing information to their loan servicer. In addition, some action plans include having the client request a constant payment amount from utility companies so that a spike in utility usage doesn't create a problem for the owner. The action plan provides clients with dates for each item, so that the counselor can follow-up and determine the client's progress in complying with the action plan.

The above strategies relate to how CCCSDV works with its clients. In addition, the organization's counselors use specific tactics when dealing with loan servicers to increase the changes of receiving a successful resolution of a client's case. In particular, CCCSDV counselors ensure that they have up-to-date contact information for loss mitigation departments of all major servicers by sharing this information with each other, as discussed earlier via email and at weekly staff meetings.

Beyond having correct contact information, some CCCSDV counselors have changed their approach when first contacting a client's loan servicer. In the past, counselors often asked a servicer's representative, after reviewing a client's situation, "what can you do for me?" Increasingly, some servicers responded by saying, "nothing" because the servicer representative said, the investor's wouldn't allow it or that the servicer had no program to accommodate any loan modifications. As a result, some counselors are now suggesting a modification to the servicer early in the phone-call, and so would say to the servicer's representative, "given the borrower's financial situation, we think that the borrower can afford an interest rate of x." Some counselors have found this more proactive approach helpful in dealing with servicers.

However, counselors who still ask the servicer what can be done have developed strategies to handle problem servicers. For example, counselors now ask for the investor name in cases where the servicer says that a loan modification is not possible because of investor guidelines. The counselor will then contact the investor directly and ask if it prohibits loan modifications. Once the counselor receives confirmation that the investor in fact allows loan modifications, he/she will call back the servicer and inform the servicer's representative that loan modifications are allowed by the investor.

Counselors oftentimes do not speak to the same person in a servicer's loss mitigation department. As a result, a counselor may receive conflicting information about the eligibility of a particular client for a loan modification. To handle this situation, counselors now take the name and contact information of each person that they speak with in a servicer's loss mitigation department. This allows the counselor to respond to a servicer's representative who says that a deal is not possible to say, "I spoke with Ms. so-and-so yesterday and she said that it was possible, so can you go and double check?" This increases the changes that the counselor will receive consistent decisions from different servicer representatives.

Finally, counselors, because they have developed a realistic budget with the client before contacting the servicer, can push back when they receive a proposal from the servicer that is not realistic. In such cases a counselor would say to the servicer's representative, "your proposal is not realistic. This borrower cannot afford that payment, and needs it reduced to x." By taking this approach, counselors are able to reduce the likelihood that the loan modification will be unaffordable to the client.

Strategies Best Able to Mitigate Losses

CCCSDV counselors, after reviewing a client's financial information always contact the servicer to request a loan modification or forbearance. Counselors indicated, however, that retention options, in which the owner stays in his/her home, are not always feasible, particularly if the owner has little or no income or cash available for a down payment required by the servicer for the loan modification. For some clients, then, the best solution is a non-retention option in which the owner executes either a short sale or a deed-in-lieu. Both of these non-retention options are preferable to a foreclosure.

For the most part, CCCSDV counselors said that clients come into counseling with a preference for retention options. In other words, most clients do not want to sell their home, and are not immediately prepared to accept the possibility of a non-retention option. Therefore, counselors pursue retention options first, and allow clients to come to a realization that it is not feasible to retain their home because they do not have sufficient income to afford even a modified mortgage. This process can take time, as clients have to go through, as one counselor put it, a "mourning period" for the loss of their home.

Of course, not every client who wants to pursue a non-retention option may do so immediately. As discussed earlier, servicers have requirements that must be met before agreeing to a non-retention option. These requirements usually include a listing period (which may be as long as six months) and, in most cases, a hardship letter than explains the reasons for the client wanting to sell the home.

Counselors negotiate with servicers to receive waivers from servicers to allow non-retention options for clients who may not meet the servicer's requirements for such a solution. As a result, CCCSDV counselors have received approval from servicers to allow a short sale before the required listing time expires. In addition, CCCSDV counselors have successfully negotiated deed-in-lieu sales for clients whose home has been listed for a Sheriff's sale because the owner's children are in school, and so a foreclosure would mean that the owner's children could not finish the year in their school. In these circumstances servicers have agreed to delay a Sheriff sale and allow time for the deed-in-lieu transaction to be completed.

A CCCSDV client's experience with a loan servicer

The Harpers (not the family's real name) refinanced their mortgage in 2006 to take cash out to pay-off credit card debt that the family accumulated, in part to help pay for medical expenses that they incurred without insurance. The mortgage they took out was a 3/27 ARM that was due to reset in April 2009. After taking out the mortgage, Mr. Harper was diagnosed with cancer. Ms. Harper to help her husband, could not spend as much time running her business. As a result, her business failed, and she incurred business debt and the family could not keep up with their mortgage payments. Mr. and Ms. Harper contacted their loan's servicer, but were not offered any forbearance or loan modification. According to Ms. Harper, the servicer representatives said that the family had to make payments, and did not care about the family's reasons for falling behind on their mortgage.

The family received an Act 91 notice in October 2008; at the time the family's mortgage was 60 days delinquent. The Act 91 notice provided contact information for agencies that provide counseling, and the Harpers contacted CCCSDV, which was located nearby to their home. The Harper's first appointment with CCCSDV was scheduled within a week of contacting the agency. The Harpers received an appointment packet, and took the information to the first counseling session. The counselor reviewed their financial information, and discussed several options with the family, including selling the home and for Ms. Harper to file for personal bankruptcy. In addition, the counselor contacted the family's loan servicer, who told the counselor that the family may be eligible for a loan modification program, and could access the forms to complete on the company's website.

The counselor could not find the forms on the website, and instructed that the Harper's download the forms, complete and submit them to the servicer. It took the Harpers a few days to find the forms on the servicer's website-apparently they were not available when the counselor initially contacted the servicer. The Harpers completed the application and faxed all of the information to the servicer (The application and supporting information was 28 pages.) A week later Mr. Harper called up the servicer; a representative said that the servicer never received the application. Mr. Harper next mailed the application and followed-up with the CCCSDV counselor, who suggested that the family apply for the State of Pennsylvania's HEMAP program. This application and supporting information was 58 pages, and the counselor reviewed the application before sending it to the Pennsylvania HFA for underwriting.

The Harper's HEMAP application was denied, and returned to CCCSDV for further counseling. The counselor suggested that the family send the HEMAP package to their servicer to support a loan modification request. The Harper's sent the application in by certified mail, which required the recipient to sign when the package was delivered. Even though the Harper's received an acknowledgement that the package was received, a servicer's representative, when contacted by Mr. Harper indicated that the servicer had not received the package. The Harpers returned to their counselor, who suggested that the family apply for the State of Pennsylvania's HERO program. The family applied for a HERO loan in January 2009 and has not yet heard about their application. In the meantime, Ms. Harper started work, and the family is now current on their mortgage. They hope that their HERO loan application is approved. Their ARM is due to reset, and the interest rate will increase from 7.75 percent to 11 percent in May 2009.

Most Important Challenges Faced in Foreclosure Counseling Work

Many of the most critical challenges faced by CCCSDV staff when providing counseling have already been discussed. Counselors indicated that clients often do not follow-up on action plan items. One counselor said that clients seem enthusiastic at the initial counseling session, but then fails to provide the servicer with the information needed to approve a loan modification. As an example, this counselor has a client who needs to send his/her servicer updated pay information, as the initial session was completed in January 2009. As of May 2009 the client had not sent his/her servicer the required information, and so the servicer cannot make a final decision regarding the requested loan modification.

To address this problem, counselors frequently follow-up with their clients, and monitor clients' progress in completing action plan tasks. Moreover, counselors scan all of the information that clients bring to the initial counseling session, so they are able to email documents to servicers if they are lost. However, some items must be updated, and clients must send them to servicers. Counselors, as discussed earlier, try to get a client's buy-in at the first 1-on-1 session to increase the likelihood the client will provide information in response to a servicer's requests.

Loan modifications usually require that an owner provide a down payment, which could consist of advance payments of the new loan. Unfortunately, many clients do not have the cash-on-hand to make such a payment. In fact, clients tell counselors that if they had the down payment, they wouldn't be behind on their mortgage. In these cases, counselors will still submit all of the information to the servicer that is required to make a decision about the loan modification. In the meantime, counselors work with clients to develop a budget that will allow the client to save enough money, or increase their income through additional work to make the down payment once the loan modification is approved by the lender.

Counselors indicated that senior citizens, who are often on a fixed income, are usually unable to increase their income by working. Many of these clients received high interest home improvement loans, and are unable to afford the payments. For these clients, counselors develop strategies to reduce expenses. These strategies may include referrals to other social service agencies that can enroll the client in programs that subsidize prescription drug costs or food banks that can provide the client free or reduced groceries.

Counselors also discussed challenges when they deal with a client's servicer. Some servicers would not consider a loan modification or forbearance request unless the client was delinquent on his/her mortgage. In these cases clients would come into counseling saying that they are about to lose their job, and want to receive forbearance in advance of a drop in income. Unfortunately, some servicers would say that they had no programs to accommodate current borrowers. This has changed, as counselors indicated that more servicers are approving forbearance agreements with client who are current on their mortgage. In many cases the forbearance requires a nominal monthly payment and, if the client makes these payments, will be considered for a loan modification.

The challenges of providing successful foreclosure counseling: a client's experience with CCCSDV.

Robert (the client's name has been changed), who is now a CCCSDV client, demonstrates both the benefits of for foreclosure counseling and challenges that make it difficult to achieve successful outcomes. Robert and his wife earned a combined six-figure salary as recently as a year ago. Unfortunately, Robert was laid-off from his information technology job in 2008 and his wife had to stop working for health-related reasons. The family's insurance was not sufficient to cover Robert's wife's medical bills, and so the couple took out a second mortgage. Robert, however, did not want to take too much equity out of the property, and so the combined loan-to-value ratio of both mortgages did not exceed 80 percent.

Robert attempted to call his lender to ask for forbearance as he continued his job search. After many attempts, he finally reached a representative of his lender by telephone. This representative told Robert that he was not eligible for and programs because he was current on his mortgage. The lender's representative told Robert to call back when he was 90 days delinquent; until such time he was, according to Robert, "not on the lender's radar screen."

Robert contacted a local elected official, who provided him a list of counseling agencies in the Philadelphia area. Robert contacted CCCSDV and, within a week met with a counselor. The counselor called the lender's representative and, unlike the person Robert spoke with on his own, informed Robert that he was eligible for forbearance and, possibly, a loan modification. Since that initial session, however, Robert has been provided conflicting information from the lender, which has recently informed him that he is no longer eligible for forbearance, and had to resubmit his loan modification application because of the requirements of the new Homeowner Affordability and Stability Program. Due to this confusion, Robert has scheduled a follow-up session with his CCCSDV counselor, who has been in contact during the entire process. Although Robert may receive a loan modification, he has not yet heard about his request for forbearance.

Robert is still out of work, and his wife recently accepted a job that pays minimum wage. It will be difficult for Robert to afford the payments for the modified loan proposed by the lender, which will have a 5.1 percent interest rate instead of the current 5.5 percent interest rate. Unfortunately, even with the help of CCCSDV, without some forbearance (Robert is requesting six months), his family may not be able to remain in their home.

Many servicers now require that clients input information directly into their websites in order to process loan modification and forbearance requests. For some clients this allows for an easier way to send data to a servicer, as compared to faxing information that can be lost by the servicer. Some clients, however, do not have internet access at home, and so must go to a library or some other location that provide internet access.

Another problem identified by counselors is that servicers change their loan modification and forbearance program requirements without notice. As a result, a client may submit information for a particular program, only to be told by the servicer that the program no longer exists, and the client must submit different information to be considered for the new program. This problem has increased under the recently enacted Homeowner Affordability and Stability Plan, under which servicers and receive funds from the federal government for loan modifications that decrease an owner's monthly payment to 31 percent of his/her monthly income. (See the discussion of a client's experience with CCCSDV, above.) [8]

According to counselors, servicers are requesting additional information for loan modification requests already submitted before the Homeowner Affordability and Stability Plan was enacted, thereby creating burdens for clients. A CCCSDV client interviewed for this study said that this happened to him. He submitted information to his servicer to request a loan modification in mid-April 2009. When he called to enquire about the status of this application, he was told by the servicer's representative that the loan modification plan to which he applied was discontinued, and his materials were sent to another department that processed requests for Homeowner Stability Plan modification requests. The client contacted a servicer's representative in that department, who said that the client had to submit additional information; in particular, the servicer required that the client submit updated information about the family's income, as loan modifications made under the Homeowner Affordability and Stability Plan must be in relation to an applicant's income. The client submitted the information in mid-April, and has yet to hear back from the servicer, as of early May 2009.

Clients who receive loan modifications often have only three days, from the date of the letter sent by the servicer, to respond with down payment funds and signed paperwork that indicates the client agrees to the terms of the loan modification. Counselors advise that their clients review the terms of the loan modifications with the counselor before sending information back to the servicer. As a practical matter, though, clients do not have sufficient time to see their counselor, as they often have to overnight mail their down payment check and signed agreement to the servicer to meet the three-day deadline. This results in clients not fully understanding their loan modification, which may affect the sustainability of these loans in the future.

[8] For more information, see Homeowner Affordability and Stability Plan Fact Sheet http://www.treas.gov/initiatives/eesa/homeowner-affordability-plan/FactSheet.pdf.

Availability of Emergency Rescue Funds

Act 91 of 1983 authorized PHFA to develop the Homeowners' Emergency Mortgage Assistance Program (HEMAP) to help certain homeowners who were in danger of losing their homes to foreclosure. HEMAP prevents mortgage foreclosures resulting from defaults caused by circumstances beyond a homeowner's control. It provides loans to bring delinquent mortgage payments current and may also provide continuing help with mortgage payments. Total assistance cannot exceed 24 months.

Pennsylvania homeowners, who become 60 days or more delinquent, before foreclosing, must receive from their lender an "Act 91" Notice that informs the homeowner of the HEMAP program and directions on how to apply. After receiving the Notice, a homeowner has 30 days to have a face-to-face meeting with a consumer credit counseling agency, which then has 30 days from that date to get the application to PHFA. Eighty-four counseling agencies throughout the state provide this service.

Counseling agencies are under contract with PHFA to prepare applications for HEMAP loans. Their job is to help homeowners present the most complete and accurate applications regarding their financial circumstances. They also counsel homeowners on financial matters and spending habits and often serve as negotiators between homeowners, mortgage lenders and other creditors in forbearance negotiations. Upon receipt of the application, the Agency has 60 days to render a decision of eligibility. If an application is made in a timely manner, mortgagors are required to halt any foreclosure action until PHFA has rendered a decision.

The following eligibility criteria must be met to obtain HEMAP loan assistance:

- Homeowners must be at least 60 days delinquent on at least one of their mortgages. If a homeowner has more than one mortgage, not all mortgages need to be delinquent. However, no more than two mortgages can receive HEMAP assistance.
- The home must be located in Pennsylvania and the homeowner must reside in the home.
- The home must be a one or two-family residence.
- By statute, mortgage loans insured by the Federal Housing Administration under Title II of the National Housing Act are not eligible.
- HEMAP loans cannot exceed $60,000 or 24 months of payments.
- HEMAP loans can be in no worse than a third lien position.

- Homeowners must be suffering financial hardship due to circumstances beyond their control which renders them unable to correct the delinquency within a reasonable period of time--loss of employment from layoffs or plant closings, serious medical problems and spousal abandonment are typical circumstances.

- Homeowners must be able to demonstrate that they have a reasonable prospect of resuming normal mortgage payments within 24 months and paying off the mortgage by maturity. Job skills, employment history, efforts at retraining, etc., are all relevant factors that the Agency will consider in determining whether there is a reasonable prospect of applicants' being able to resume making full mortgage payments within 24 months.

If approved, a homeowner can receive up to 24 months of loan disbursements. Mortgage payments are made by HEMAP directly to the lender on the homeowner's behalf. PHFA assistance is in the form of a mortgage loan. The HEMAP interest rate is statutorily set at nine percent. However, interest does not accrue until the homeowner is financially able to start repayment based on a formula established by statute.

If denied a HEMAP loan, the homeowner has 15 days to appeal the decision. This appeal process is not part of the law but rather was instituted by the Agency to provide applicants with a second opportunity to resolve misunderstandings. A lender may continue the foreclosure action during the appeal process.[9] About 15,000 HEMAP loans are originated each year; [10] the funding comes for HEMAP loans comes from an appropriations of the Pennsylvania state legislature, who approved about $15 million in funding in the most recent fiscal year.

According to CCCSDV staff, only about 20 percent of HEMAP applications are approved because many clients who are delinquent on their mortgage do not meet the eligibility criteria, presented above. In particular, many CCCSDV clients cannot satisfy the HEMAP requirements (1) that the delinquency is beyond the client's control and/or (2) the client can demonstrate the possibility of making regular mortgage payments after the HEMAP loan cures the delinquency. Clients who receive a HEMAP loan may still need to have their mortgaged modified, as the program only addresses the client's arrearage. In general, CCCSDV counselors thought that HEMAP was a good option for some clients, but could not be relied on to help all clients. As a result, applying to for a HEMAP loan is part of a multi-pronged approach, which includes contacting the servicer and asking for forbearance or a loan modification used by counselors for their clients.

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[9] Brian A. Hudson, Sr., Executive Director & CEO Pennsylvania Housing Finance Agency before the Banking, Housing and Urban Affairs Committee of the Senate of the United States, April 7, 2008. http://banking.senate.gov/public/_files/OpgStmtHudsonBankingTestimonyFinal04072008DoubleSpaced.pdf.

[10] Statement of Ira J. Goldstein. The Reinvestment Fund. April 7, 2008 http://www.trfund.com/about/newsletters/Spring%202008/Statement-Ira-Goldstein-TRF.pdf.

Availability of Long-Term Assistance Funds

The State of Pennsylvania initiated two program: Homeowners' Equity Recovery Opportunity Loan Program (HERO) and the Refinance to an Affordable Loan Program (REAL). Both programs, started in the Summer of 2007 provide opportunities for Pennsylvania residents to refinance their existing mortgage.

HERO

The HERO program provides for up to 100 percent financing but, instead of refinancing an owner's current mortgage into a new loan, the PHFA purchases the owner's existing loan from the current lender and then modifies the loan so that the payment is affordable to the owner. This program is for owners who are not eligible for the REAL program (see below) or another mortgage refinance product available in the general market due to credit issues or owing more than your home's current appraised value. Funding for the HERO program is limited. Loans are reviewed by PHFA on a case-by-case basis as funding levels permit.

The following eligibility criteria must be satisfied to qualify for a HERO loan:

- The combined gross annual income of all borrowers may not exceed $120,000. This limit may be waived based upon individual circumstances for individuals not served by a loan product available in the general marketplace.
- The owner must demonstrate that he/she made an effort to meet your financial obligations to the best of your ability.
- The owner must have sufficient and stable income to support timely repayment of the HERO loan in regular, monthly installments. (All borrowers must agree to make monthly mortgage payments by automatic payment directly from your bank account.)
- The mortgaged property is the owner's permanent residence.
- If the owner has stopped making your mortgage payments, he/she must be able to account for the cash flow by showing how the owner escrowed, saved, or redirected those funds.
- The HERO loan must be in first lien position.

CCCSDV counselors said that they used the HERO program more early last year than now. The reason is that lenders are more likely to agree to a loan modification that has the same (or lower) payments than the PHFA would provide once it purchased the loan from the client's lender.

REAL

Under the REAL program, borrowers can receive a new mortgage in an amount that is up to 100 percent of an owner's home's value based upon a current appraisal (or 95 percent for borrowers with a credit score below 620). The REAL loan may be used to finance items such as subordinate mortgages, closing costs, prepayment penalties, delinquent property taxes, and arrearages that have occurred within the past 12 months after the loan reset to a higher monthly payment amount. To qualify for such a loan, the owner must meet the following eligibility criteria:

- The combined gross annual income of all borrowers may not exceed $120,000.This limit may be waived based upon individual circumstances for individuals not served by a loan product available in the general marketplace.
- Payments on the existing mortgage are no more than 59 days past due.
- The owner's credit score must be at least 620 or meet all of the following conditions:
- The mortgage payment adjusted in the last 12 months to a higher interest rate or a fully amortized payment and the owner made no more than two, 30-day late payments since the adjustment. The owner's mortgage payment history 12 months prior to the adjustment must show no history of late payments.
- The owner's credit history of other debt (car loan, credit cards, etc.) shows no more than three, 30-day late payments 12 months prior to the adjustment of your mortgage.
- Total monthly total debt costs (credit cards, car loans, installment loans, REAL mortgage payment, student loans, etc.) may not be more than 50 percent of the owner's total gross monthly income (or 45 percent for borrowers with a credit score below 620).

CCCSDV counselors said that very few of their clients received a mortgage through the REAL program because of the relatively restrictive eligibility criteria. In fact, one CCCSDV staff member thought that the program was discontinued due to low volume. However, the program is still listed on the PHFA's website as an option for people who meet the eligibility criteria. Nonetheless, it has limited, if any impact on CCCSDV clients, according to the organization's staff.

Opportunities Emerging that Contributed to Positive Outcomes

For CCCSDV clients who live in Philadelphia, perhaps the most important opportunity that emerged in 2008 was the City's Diversion Program. The City of Philadelphia's Mortgage Foreclosure Prevention program was initiated in April 2008 by the Philadelphia Court of Common Pleas and local housing advocates, with support from the City of Philadelphia and the

County Sheriff's Office. The program works by postponing Sheriff sales for all owner-occupied residences until the homeowner has had an opportunity to meet with a housing counselor and explore viable alternatives to foreclosure. There are three components to the Diversion Program:

1. Courtroom Meetings: The Conciliation Conference is a special court hearing where proposals to cure the mortgage default are presented to the lender's attorney and a judge pro tem. The homeowner is represented by a housing counselor and if available a pro-bono attorney.
2. Door–to–Door Outreach: The outreach program was added by the City of Philadelphia to raise homeowner awareness of the program. Although every homeowner eligible for the program receives an official notice from the courts, families facing the crisis of foreclosure may become overwhelmed or discouraged, and begin to disregard their mail. The outreach workers go door-to-door to program-eligible properties. They leave informational flyers and urge the homeowners to call the SaveYourHomePhilly hotline to access housing counseling resources.
3. SaveYourHomePhilly Hotline and Counseling: The City of Philadelphia provides funding for a hotline that is staffed by lawyers and paralegals at Philadelphia Legal Assistance. The hotline provides the homeowner with additional information about the Foreclosure Prevention Program, and schedules the initial meeting between the homeowner and the housing counselor. Homeowners are given the option of meeting with a housing counseling agency near their place of work or their place of residence. The housing counselors collect and review the homeowner's financial and loan documentation, and begin negotiating with the lender in preparation for the Conciliation Conference.[11]

CCCSDV assigns a counselor to negotiate on behalf of all clients that participate in the Diversion Program. These participants will go to a hearing one their HEMAP application is denied. After receiving this denial, the client returns to CCCSDV and a counselor completes a proposal that is faxed to the attorney representing the servicer no later than 10 days before the scheduled conference. The Proposal requests the terms of a modified loan that will be requested at the Diversion Program hearing.

The CCCSDV counselor responsible for Diversion Program clients reviews the court's docket (which is available on-line) on the Monday before the Thursday court date and also

[11] First Judicial District of Philadelphia. Court of Common Pleas of Philadelphia County. Joint General Court Regulation No. No. 2008-01. Residential Mortgage Foreclosure Diversion Pilot Program http://fjd.phila.gov/pdf/regs/2008/cpjgcr-2008-01.pdf.

reviews all of the proposals submitted by CCCSDV counselors on behalf of their clients to the servicers' attorneys. At the Diversion Program hearing, the CCCSDV counselor meets with the attorney representing a client's servicer and hears the attorney's offer. This offer may be different than the modification submitted by the CCCSDV counselor in the proposal, and, in these cases, the CCCSDV counselor will negotiate with the servicer's attorney. In most cases the attorney and the CCCSDV counselor, with the client's approval can agree to a mutually acceptable loan modification.

Cases in which a servicer's attorney cannot agree to terms that are acceptable to the client are decided by a *judge pro tem* (JPT). For these cases a client is assigned a *pro bono* attorney, who consults with the client and the CCCSDV counselor about potential options for the loan modification. The JPT has the power to make the servicer come to realistic terms to cure the delinquency, which is often similar to the terms outlined in the initial proposal.

According to CCCSDV counselors, servicer attorney have become another loss mitigation channel because they will often advocate on behalf of the homeowner to their clients. The reason is that, over time, the attorneys have seen that the JPT often rules in favor of the homeowner, and so it is best to come to a mutual agreement before having the case decided by the JPT. When contacting their clients, servicer attorneys tell their clients that the conciliation will drag the process out, which will be more costly than any income lost from the proposed loan modification. According to the CCCSDV counselor who works in the Diversion Program, 70 percent of clients receive a retention option (a loan modification or forbearance agreement), 15 percent receive non-retention options that prevent foreclosure. The other 15 percent of clients go into foreclosure, but these cases typically are ones where the owner comes to the Diversion Program hearing with no information or had been non-cooperative with the counselor.

Although many CCCSDV avoid foreclosure initially from loan modifications agreed to at a Diversion Program hearing, CCCSDV staff are concerned that owners may be unable, going forward to remain current on the modified loan. Therefore, some staff are unsure that the Diversion Program costs (attorney fees, courtroom staff, etc.) are justified, especially if owners assisted by the Diversion Program end up in foreclosure at a later date.

NEIGHBORHOOD HOUSING SERVICES OF CHICAGO

Neighborhood Housing Services (NHS) of Chicago has a long history as an innovator in foreclosure prevention and mitigation, based on their recognition back in 1997 of the need to create programs of assistance to borrowers in danger of losing their homes. Well before NFMCP, NHS pioneered, along with the City, Federal Reserve, and many lenders, the Homeownership Preservation Initiative (HOPI), which has been widely imitated and adapted in the city and much beyond. Partnering with the City and lenders resulted in, among other elements, an emergency rescue fund and a long term fixed rate refinancing fund. NHS has a central office and 9 neighborhood offices all supplying foreclosure mitigation counseling.

Volume of clients seeking counseling assistance has continued to increase, in 2007 and 2008, and now again with the publicity for Obama's Making Home Affordable plan. NHS responded to this volume, and to requirements of the NFMCP, by restructuring their handling of clients. These revisions included centralizing their intake and data collection functions, building their own client database, and adding financial education workshops as pre-requisite to individual counseling. They added and trained counselors in foreclosure mitigation/prevention. The have defined a series of strategies and tactics for maximizing counselor success in dealing with servicers and clients. And now they are making additional pilot modifications in their processes to accommodate the Obama plan.

Significant success has been achieved in obtaining loan modifications but far short of what is possible, given client circumstances, with more willingness by servicers/lenders to make loan modifications and more efficient loan modification processes by those stakeholders. Prior to the Obama plan, many people able to make some significant house payment have not been successfully served with modifications. NHS has been able to use its refinance resources as back up for some of them. Still, many of the borrowers they see have housing payments and expenses so large compared to their incomes that they will not be viable candidates for Making Home Affordable, unless large principal reductions become the norm.

Practices for NFMC Program Service Delivery

NHS of Chicago (hereafter NHS) had a large-scale foreclosure mitigation counseling effort in place at the start of NFMCP. But it has revamped its operations in substantial ways in order to accommodate a significantly expanded client flow and to efficiently obtain reporting information required by NFMC. NHS has access to a full array of foreclosure prevention tools, especially relative to many other foreclosure counseling providers; but it still receives contact from many clients it cannot give much help.

NHS does extensive outreach in all of its 9 focus neighborhoods and beyond. This includes collaboration with servicers that are part of the HOPI partnership, the City—which has a 311 hotline that refers people to NHS. It helps that the stigma for asking for help is declining. A piece of the outreach is now mailing in focus neighborhoods to people identified as having begun foreclosure. One extremely energetic counselor speaks and leaflets at many locations and attracts large numbers of homeowners. People enter by way of 311, HOPE NOW 800 number, NHS' own 800 number. HOPE NOW does Level 1 counseling and refers people on. The others funnel most of the time to NHS intake operators who can impart basic information, collect basic information, make people aware they should sign up first for education workshops and schedule their attendance.

All intake information is transmitted daily to NHS's intake office staff, who review the materials for completeness and reach out to borrowers from whom more is needed or who require additional information to be shared with them. The information is entered in an Access database which NHS created itself specifically for this purpose, converted eventually to Excel data points and reported to NFMCP.

The workshops discuss foreclosure process and timeline in Illinois, options available to homeowners including ways of both staying in and moving out of the home, what kinds of things borrowers can do to self-cure and how to approach lender/servicers, and how to sign up for and what documents to bring to individual counseling. These include financial information about income and expenses, a hardship statement letter, mortgage status information, and any correspondence from the lender. Counseling staff also work with people to complete the gathering of intake information at these workshop sessions if the borrowers wish to obtain individual counseling help from NHS and have not already supplied all the needed information to get started.

People are generally required to complete one workshop in order to get an appointment with a 1-on- 1 counselor (exceptions are granted). These workshop sessions are held at various of the NHS office locations for a total of 6 days a week—drawing perhaps on average about 20-30 or more people.

Counseling itself includes foreclosure-prevention-specific advice but also frequently credit counseling, budget planning, and referral for other kinds of assistance in the human services and job training and placement arenas. It starts with checking the accuracy of intake information (e.g. whether the loan is an ARM). An assessment is made of whether a modest adjustment to the loan by lender concession would solve the borrower's problem, or whether the situation is more difficult because of loss of income. Borrowers are asked to construct an accurate budget at home, drawing at their actual records (bills, credit card statements) to offset tendency to inflate expenses. Counselors work with borrowers on suggestions of items to reduce. Using manual calculations and eventually Best Fit, an assessment is made of what the household can sustainably pay for housing. The counselor helps borrowers develop a mindset for contacting the servicer, urging that they listen carefully to what the lender has to say and be prepared to challenge it if it is incorrect or infeasible. The counselor then tries to reach the servicer while they are together.

NHS has a decentralized service delivery model for actual education workshops and counseling, with offices in all 9 neighborhoods in which they concentrate their work (not just foreclosures). Each of those nine offices provides counseling, either from staff regularly on site or from staff who service the location periodically. There is a major counseling operation at the central office on Milwaukee Avenue in addition to the field offices.

Effective Strategies in Increasing Scale of Service Delivery

NHS made major shifts in its intake and initial education/counseling procedures as its caseload rose. Originally, client calls came in to counselors from multiple sources including an 800 number, the City's 311 referral line, Hope Now, etc. Intake of basic information was done by counselors, on a decentralized basis in both the central office and at the neighborhood offices. Then clients who were interested in the services NHS had to offer (some for example only wanted to know if there was a loan reduction or subsidy ready at hand) were scheduled for 1-on-1 appointments of 1 to 2 hours.

As volume grew, counselors could not handle the caseload in this fashion. Two key changes were made. The first is centralization of intake. The same contracted operators who were answering NHS's 800 number now have a script from which they gather basic information about the borrower and loan status sufficient to determine whether the borrower qualifies for assistance (owner occupant, within City of Chicago, whether delinquent)and in which they offer information about what NHS can provide. People who enter the system in other ways are generally transferred to the NHS operators. After doing their work, they then refer people to the second main component of change: the foreclosure education workshop. The intake information is transferred to a central office of NHS intake staff. They check the information that has been submitted to make sure it is complete and accurate and do follow-up with clients if anything is missing or inconsistent.

Until May or June, 2008, NHS had no group workshops. NFMCP-related volume helped trigger the desire to manage counselor time more efficiently. Now virtually everyone attends one before being allowed to schedule individual counseling sessions (see Q1 for content of workshops). Over 500 people attended workshops in March, 2009 alone, after the Obama loan mod plan received publicity. Those who want to continue with NHS are aided in completing their intake forms, which also provide information mandated by NFMCP to qualify NHS for reimbursement. And they are informed about materials to bring to the 1-on-1 if they choose to schedule one so that the first counseling session can potentially produce not only a plan of action but communication with a servicer and movement to or toward a modification proposal.

Presently, clients still have to wait a week or two for an individual interview but far more borrowers are moving through the system than before. Numbers rose to 400 for just the month of March, 2009. Volume over the year 2008 was 2,500 clients, whereas most other Chicago foreclosure counseling agencies serve 100. NHS volume has been large for some time, including 1,900 in 2007.

NFMC resources are a significant help in handling workload, enabling the shift of counseling resources from reduced activity in counseling and lending for purchase to expanded foreclosure mitigation work. The NFMC program requirements forced the intake centralization moves and the creation of the Access database that helped facilitate handling more clients. But most NFMC dollars generally arrived too late to actually pay for those changes themselves.

NHS added additional management to help handle expansion of services and scale. It hired a new Assistant Deputy Director with responsibilities for both homeowner lending and counseling, each with its own manager. With her arrival they needn't have managers of both of those functions reporting—along with lots of others—directly to the Deputy Director, meaning they get more direct problem-solving assistance from their manager. Six (4-6 per conflicting interview information) counselors working full time on foreclosure mitigation were added in part with NFMCP funds. Some counselors shifted from pre-purchase counseling to foreclosure mitigation, or shifted part of their time, so that most counselors now spend 80% of their time on foreclosures. The City of Chicago will pay up to $40 per hour for up to 10 hours of counseling per borrower.

NHS is making a further shift in its intake and counseling procedure, at least on a trial basis, in the context of President Obama's foreclosure prevention plan. It is a holding a one-day event ("Fix Your Mortgage") to bring perhaps 1,000 or more households together with counselors and servicers/lenders. They will be asked to bring 4 basic pieces of data that will document their financial situations sufficiently to submit a proposed loan modification on the spot. Large numbers of counselors and people, mostly attorneys, newly trained to work with these borrowers specifically in relation to the formula in the Obama plan, will be available to move people immediately forward to the point of creating and submitting a documented proposal. The 1 to 2 hour individual meetings with counselors will be foregone. Those without the full set of necessary documents will be served with beginning intake efforts, workshops, and appointments for their return with needed materials.

New resources assisted NHS in making the transition to serving a much increased scale of foreclosure clients. The MacArthur Foundation supplied $1.2 million, a major expansion from its previous support to NHS, to enable the organization to do expanded marketing outreach to potential clients in their target neighborhoods, to help make the structural changes just discussed, and to shift people from pre-purchase counseling and purchase lending to foreclosure intervention. NFMC start-up and requirements triggered the workshops and intake changes, though its dollars were mostly too late to help pay for them. The NFMC dollars enabled retention of added staff on the foreclosure side who might otherwise have had to be laid off as purchase and rehab loan demand declined in the worsening economic climate during 2008.

Strategies Best Able to Prevent Foreclosures

Being able to, very early in the counseling process, talk to a real decision-maker who can give a correct story the first time about what is possible would be a great help, but it is often not possible.

NHS's long history of work in the foreclosure prevention field, including specifically the partnerships with lenders (and City and Federal Reserve) involved in HOPI, does help in being able to deal with the problems of working with servicers' on loan modification/loss mitigation. But whether awareness of an existing servicer/counseling relationship, and trust in and respect for NHS, actually makes it down to a specific individual loss mitigation staffer at a servicer is questionable. NHS has worked hard to pin down who the right servicer staff people to talk to are (with help from HOPI and Hope Now partners), to speak to the same person consistently on a case, and to establish standardized worksheets across servicers. In some instances, Mike Van Zalingen, Director of Homeownership, has been able to establish a relationship with a particular contact at a servicer, who can be used when a case needs a breakthrough or escalation. Counselors do escalate cases with some success, at least to the point of obtaining some response, though by no means always a favorable one in terms of a sustainable loan modification.

NHS is conscious about working with servicers who take the lead in working out sustainable modifications and improving various practices, and then using the progress as a demonstration to other services who might follow. Homecomings/GMAC has been such a leader. It has a loan officer located within NHS's central office (as a tenant). Counselors with GMAC borrowers refer clients to him, in general and especially with clients who might seek NLP refinancing with a short payoff. And he hears from borrowers in trouble and refers them to NHS workshops and counselors, especially where budgeting is a problem.

Homecomings provides good modifications, including 3-month trials with no down payments for arrearages. The Homecomings staff member does not himself handle loan modification but will at times intervene with the loan mod decision-makers in his company or at the least step in to establish communication between counselor, borrower, and servicer when telephone and FAX tag is failing. Given the prevalence of missed communications and long lags, this can be important intervention. Interactions with the servicer's representative on site help counselors to understand servicer needs and vice versa, including mutual recognition that everyone is overwhelmed by volume of cases. Counselors and servicer rep are able to be very direct and frank with each other about what will work in specific cases and more broadly. They mutually develop more accurate expectations of what can be expected from the other institution. The GMAC staffer and NHS have been in substantial communication about what GMAC and other servicers need and expect in terms of data, documents and proposals within the new Obama plan—helping to assure the provision of necessary common baseline of information.

The two counselors we talked with were with NHS 2 years and 1 year respectively. The more senior counselor did not have a background in housing and housing counseling before NHS but had been involved in retail banking and customer service. The other counselor had experience in mortgage origination and underwriting. Both thought a strong people orientation—putting oneself in position of the homeowner fighting for her home and of the servicer/lender—was a key to their work. Other important aspects of counseling approach included:

- Calling the servicer together with borrower, so that the servicer knows that everyone is listening and that the borrower is represented by a knowledgeable counselor.
- Counselor being aggressive with servicer—insisting on talking to loss mitigation staffer (not collections) and, if they are clearly scripted, asking for a supervisor or hanging up and calling again to get a different person. If response to proposed modification is "no," pushing for explanation of why. Making servicer know you are prepared.
- Knowing the homeowner's situation well so that you can share specific facts that prevent the lender from sticking with a pat answer.
- Demonstrating to servicer that with loan modification the client can pay and is willing, per budget, to make sacrifices to do so.
- Making a strong pitch to borrower to recognize opportunities to reduce expenses. Working with borrower to create a budget based on accurate information on expenses, reviewing it line by line.
- Assembling a complete package and submitting all at once.
- Getting client to have realistic expectations and to consider a Plan B if Plan A fails to get approval. But in a significant number of cases, Plan B involves losing the home; and few home owners are prepared to hear it.

Giving counselors opportunities to talk with each other and exchange ideas and techniques that are working is a valuable element of helping them become more savvy. The two counselors with whom we met, both from the same neighborhood office, talked about borrowing specific tactics from each other and about the value of joining in exchanges with others as well.

The result counselors seek is a loan modification ("Plan A"). In general, repayment plans are not helpful. "If the client could make those payments, they'd be doing it."

Loan modifications by lender/servicers have accounted for perhaps 75-80% of saves—despite the many difficulties of communicating and working with loan mitigation officers. NHS's refinance capability (see Q 10) has been of significant value to date in saving people's homes. But refinances, using the NHS's NLP, have been more a reasonable option in the past than now, though thought of as always inferior to loan modifications. Now, many clients coming in are in no position to refinance, given their incomes and recent credit history. And their homes have lost too much value to allow it, unless the lender will accept a short-payoff, which is very rare.

NHS staff find value in using Best Fit (after previously upgrading Home Counselor Online) as loss mitigation software. It provides an opportunity to place documents securely on websites from which counselors and servicers can access them, eliminating the losing of faxes and similar transmission problems. Regrettably only some servicers use Best Fit, which means its value for information exchange is limited to less than its full potential. But NHS finds it useful nonetheless (one user however is disappointed in its limited ability to accept notes on cases), for the servicers who do use it and as a device for their own use, with some useful data also attached. NHS continues to upload the information on cases of borrowers whose servicers are not using it and to push for them to take advantage of it.

Many borrowers pursue self-curing of delinquencies, contacting their services themselves after the initial workshop and perhaps one discussion with a counselor. Data on success level is not available.

Strategies Best Able to Mitigate Losses

NHS aims to promptly give households accurate information when there is no apparent alternative to losing their homes. Counseling managers want to limit involvement with these cases, referring people quickly to sources of help with finding housing, relocating, and getting access to additional resources to aid with transition. Many people do not want to hear that advice, and counselors themselves are reluctant to refuse service. A small number of these borrowers take a great deal of time to console and convince if staff are not firm about the need to go on to help others. But counselors are moving a bit toward referring quickly and have accumulated a variety of referral information to be able to help people meet multiple needs. All concur that giving realistic expectations, telling the truth from the start are important.

NHS management goal is to do in-person counseling only with those who are viable candidates to stay in homes and triage others on the phone at intake, sending them to sources of other aid or possibly to the foreclosure option education workshops. Counselors feel that people often need to hear in person that the situation can’t be fixed in terms of saving their homes and then receive help with referrals to assistance of other kinds. Everyone on staff seems to recognize that triaging in order to serve all who can be helped and meeting the needs of even those who cannot save their home poses a tension.

Counselors are aware of relatively few actual foreclosures. But many people who make an initial contact thereafter disappear, and some significant percentage end up with foreclosures (more than a quarter of all NFMCP borrowers listed by NHS already have started or completed foreclosures).

Most Important Challenges Faced in Foreclosure Counseling Work

Getting and maintaining the right contact with servicer’s loan mitigation people has always been a big problem since the crush of volume of borrowers became severe. The situation has generally improved a little but it still goes up and down for any given servicer with such factors as specific people in key roles, turnover of staff, servicers’ specific situation and management, changing systems. And it remains very difficult to be able to work on a continuing basis with the same person. That problem is made worse by the training weaknesses for servicer staff, which mean that a loss mitigation officer's answer on the possibility of using one approach may be different from that of the person reached on the next call. (This can also be used to a counselor's advantage however: counselors will hang up and get a different person if they don't like the response they are being given).

Untrained staff at servicers is a broader problem because counselors can't know what to expect in terms of acceptance of proposals. Loss mitigation staff often rely on rote responses, which usually means no. And even the better-trained servicers have great difficulty getting clear guidance. Frontline staff may think they can make a certain arrangement and focus on that with client, but then when he/she has to check up the line, the proposal turns out to be something they can't do. Counselors would greatly benefit from getting to talk more often to someone who is close to those who are making decisions.

Simple communication, including FAX transmission of documents (verifications, authorizations)—often lost, getting someone at servicer to answer phone, phone cut-offs, remains a significant and frustrating problem. It can take 2-3 weeks simply to get servicers' acknowledgement of receipt of borrower authorization to release information to a counselor. More broadly, the sheer volume of cases poses response problems for servicers and counselors. The response to the Obama plan and its 2% interest rate modifications has been enormous and again strained the counselor system—the reason for the attempt at a series of one-day events. Volume is up by a factor of 3 to 4 times since the plan started being discussed.

On all of the above issues as well as servicers' attitude toward providing modifications, servicers and especially collection departments have been set up for a different era—where divorces and job losses and other changes in circumstances rather than the nature of the loan itself were cause for delinquency and where the numbers of defaults were very much smaller. Servicer systems and policies have changed but far too slowly to match changes in circumstances.

At the counseling end, intake revisions and the institution of group workshops has greatly eased the difficulties of initial interaction with borrowers and capture of necessary data. Counselors however remained swamped by the numbers of people seeking counseling. Providing the time of counselors for individual sessions with clients remains a major obstacle, with delays in clients getting scheduled for individual sessions and challenges in staying on top of every ongoing cased.

Also on the borrower/counselor side, it often takes a lot of time to work with homeowners to get verified budget information as part of compiling information for the servicer—bank statements, bills, etc. to document borrower expenses in showing hardship.

Servicers have been reluctant to provide sustainable loan modifications, even once the right loss mitigation person is contacted. They tend to fall back on the "investors won't allow it" explanation. But NHS staff seem to be saying that an equally big or even modestly bigger problem is that many of their borrowers cannot benefit from any reasonable modification (Obama plan may take saves from previous 20% to 53% but that leaves the 47% or so for whom a 2% interest rate won't work).

It seems that the Net Present Value formula in the Obama plan should make things better by giving a clearer standard of what is an appropriate modification and justification, although there are key parameters to the analysis in terms of loss from foreclosure that still need to be established. Waiting for the Obama plan to be in place slowed progress. There remains concern among lender/servicers about what to do about investors in securitized loans. Servicers differ in their interpretation of what investor agreements allow, securities differ, and different investors have different interests regarding nature of modifications. Obama plan may help on standardization.

Another challenge has been second mortgages, which perhaps 25% of incoming clients have. Some holders of 2nds are stubborn about largely writing them off, even when they seemingly will receive nothing in a foreclosure. But there is some increasing realism on the part of second lien holders. Bank of America for example now looks for 5% of what they are owed on seconds.

Initially, NFMCP reporting posed a challenge. NHS had its own large intake form, which nonetheless lacked data NFMCP required. And counselors took intake directly themselves and did not treat the information gathering, for things they did not need for counseling itself, seriously. Some data requirements were not easy to see amid program manual details, resulting in NHS having to go back after the fact to collect information on many of the cases they handled in the first half of 2008. Credit reports and FICO scores were a particular problem until NeighborWorks relaxed the requirement for them. Now the data needed for Level 1 are obtained well in initial phone intake by non-counselors and in the workshop that precedes individual counseling. After the central "Intake Office" receives the files and enters the information into an Access database, intake staff pursue any missing information by phone. The database is set up so that it is fairly easy to upload the information needed for NFMC program's system. Some additional data (four major points) is needed for Levels 2 and 3 and that remains a challenge. Counselors require some prodding regarding each of the borrowers shown as being assigned to them to update information on outcomes, mode of counseling etc.

Perhaps the most serious problem is nonetheless the number of borrowers with such high debt service to income ratios that no loss mitigation option would really be very helpful. See #6 below for further detail. An upcoming set of problems are the Alt A, prime, and payment option and interest only ARM loans that have as yet not been going delinquent previously in the numbers that have subprime ARMs.

Clients for Whom Successful Foreclosure Prevention is Most Difficult

Recently, many borrowers are in one or more of several categories: people who never had income to support full payment of their loans once full loan payments were required and teaser rates, etc. expired; people with very troubled credit histories and other circumstances who borrowed on a no-documents or liar-loan basis; people who were fraudulently misled about their loan terms; people who had sufficient or marginally sufficient income and then lost jobs; and people who have already received a loan modification but have become delinquent again. Many are seniors talked into repeatedly refinancing their loans, with large fees paid and ever-higher loan balances that now far exceed their means. Housing debt service to income ratios of 70 to 80 percent are not uncommon. Total all-expense to income ratios of 170 percent are also not uncommon.

People without jobs and with an imminent sale date are among the least possible to save successfully. Even someone without a job but with some time before foreclosure sale—Illinois foreclosures take about a year—has had a reasonable chance of being able to find a way to save his/her home. People have in some cases been able to find new employment during the lengthy period before final foreclosure. Unfortunately the deteriorating job market decreases this likelihood—people who could always find at least some employment are now having a difficult time getting any job. Counselors try to help owners find employment or come up with another way to obtain income, including renting out part of their homes, sharing with a relative etc.

The Obama plan extends from 20% to 50-55% the share of clients NHS may be able to help, they estimate but that still leaves large numbers. Significant numbers of borrowers are older people who were doing fine until talked into refinancing and now have front-end, housing only debt to income ratios of 70% and more and no way to be assisted short of significant reductions in principal as part of loan modifications. These loans are often ARMs with debt-to-income ratios at 50% even before reset and now significantly higher. Also a problem are rising amounts of non-housing debt limiting what people can afford to pay for their housing expenses.

Lenders have in most cases in the past refused to consider principal reductions. They are still reluctant but some are showing more willingness. The change is not enough to handle many of these difficult cases.

Strategies Best Able to Reach Those in Areas of Greatest Need

NHS has 9 neighborhood offices in different neighborhoods of the city, giving them a good sense of where foreclosures are concentrated and to whom to reach out. The MacArthur Foundation resources for outreach in MacArthur's 16 target communities granted to NHS provided a major boost in reaching borrowers in need of help. In addition, NHS has on a pilot basis obtained lists of foreclosures in process accumulated by NTIC. NHS then contacted these borrowers and provided them with a workshop in which the servicers are present and borrowers can talk 1-on-1 with their own servicers.

Strategies Best Able to Serve Borrowers Most At-Risk of Foreclosure

People with an imminent date set for foreclosure sale of their home receive some priority attention. But some balancing is done given that these folks are by no means systematically the most likely candidates for successful home saves. Getting to some early in the delinquency process is valuable.

Note that in Illinois a foreclosure typically takes about a year, so that people with delinquencies that would be very lengthy in some locations still have significant time to cure in Illinois.

Availability of Emergency Rescue Funds

NHS has funds for small deferred-payment loans to enable homeowners to catch up on their arrearages. Maximum assistance is $10,000, in the form of deferred and forgivable second mortgages interest free or at 3% interest. Funds are from the City of Chicago foreclosure intervention program (FIP), using mostly CDBG resources. The program was useful earlier, especially in conjunction with loan modifications, to meet the down payment requirements toward arrearages that lenders were demanding in conjunction with the modifications. More recently, so many of the clients have a much larger arrearage and/or an unsustainable long-term mortgage that this rescue fund alone has become much less useful. And lenders who do make modifications are less often requiring major down payments.

The City's 311 program has up to $1,500 available to help people to bring their mortgages current when they have very small arrearages.

Availability of Long-Term Assistance Funds

NHS has for 6 years had large-scale funds available for refinancing people out of bad loans (total refinance). A good many of the borrowers coming in the door in the past had high-interest ARMs (or just high interest). The primary means to "save" them was always getting a loan modification from current lender, since best was to allocate risk to the original lender rather than shift it to NHS. But a 20-25% share of saves were in refinancing in 30-year fixed rate loans.

The loans came from Neighborhood Loan Program (NLP), which is a pool of about $100 million over 3 years (in 2003 and then again in 2006 and now being finalized at $130 million for three more years). Over 20 lenders participate and take a piece of each package of loans. The loans can be for purchases, rehabs, and combinations that don't involve foreclosure prevention as well, but some were for the refinances of the bad loans. NHS originates the loans with its own funds (supplied by the City of Chicago from CDBG and general ("corporate") funds) and then every couple of months sells them to the NLP (the loans are seasoned a bit before the NLP lenders come in actually as investors in the mortgages). The NLP is a 30-yr line of credit, used to provide 30-yr fixed-rate loans to people who may have ARMs at 8 to 11 percent. The loans have been made at around 5% (currently 4.79% and as high as about 6% earlier), which is a substantial benefit to people with interest rates of 9-12% that were common in the subprime market in Chicago. Some of the loans include a soft second mortgage. CDBG provides that piece of the lending, or if the loan is in a target neighborhood but not to a borrower with income below 80% of AMI, the City general fund money is used. There is also some philanthropic money and other funds that sometimes mean 3 loans to make the refinance sustainable to the borrower.

This foreclosure prevention line of refinancing business is declining however, for several reasons. Increasingly borrowers coming in for counseling have lost income or jobs and can't afford refinance loans; the interest differential is less often high because people with decent loans are now needing help in the bad economy; property values have declined enough that refinances can't pay off existing loans; and people are eager to use the Obama Homeowner Affordability and Stability plan with its interest rates as low as 2%. The NHS refinances aimed for 38-41% housing debt to income ratios, whereas Obama sets 31% as the standard. And NHS itself prefers to have the future risk of default rest with original lenders, not to pay them off with a refinance. Modifications from lender/servicers were always the preferred option for this reason and remain so in the context of Obama's plan.

Opportunities Emerging that Contributed to Positive Outcomes

NHS has significant hopes for the value of the loan modification portion of the Obama plan to avoid large numbers of foreclosures. They used the detailed data compiled to comply with NFMCP reporting requirements to estimate that 53% of their clientele to date could have been saved by the plan, compared to the 15-20% of borrowers actually saved from foreclosure to date. NHS is figuring out who qualifies under the new rules, helping people get the needed documents (fewer than before) together. Key is whether servicers and lenders really respond. NHS plans to submit a large number of applications all at once based on May 2 and then June 6 events, to test what servicers will really now do under the Obama plan. They intend to promptly report to policy makers what they find out from this experience and complain loudly if there are still only a limited number of sustainable modifications. Servicers have promised to provide responses to Obama plan modification proposals in 4 to 6 weeks. July 7 is HOPI's semi-annual meeting, which includes the Fed Reserve among its participating partners. That will be a good time to release the results in terms of modifications obtained.

NFMC views the Obama plan as essentially voluntary, despite the mandate for participation by bailout recipients and the requirement that those lender/servicers who decide to sign up for participation need to respond to all borrowers approaching them and say why any mod rejections are rejected. They do see that most big servicers have signed up, in response to the $9 billion incentives. It should help that there is a clear and simple way of defining hardship, rather than having to guess how the servicer will respond to a given set of borrower conditions. Not clear is whether servicers will turn down people with back-end debt payments to income ratios of over 45%. While that is supposed to be a standard, the data collected doesn't appear to allow lenders/servicers to know what borrowers total debt is.

NHS thinks that the proposed ability of bankruptcy courts to reduce mortgage payments on first homes is an important component of making the Obama plan work, giving services/lenders/investors greater insensitive to accept reasonable loan modifications in order to avoid this alternative.

NHS sees little use for the Fannie/Freddie refinancing portion of the plan, because their clients don't usually have prime mortgages and are too far underwater in terms of home values to qualify.

NHS was the first organization in the City of Chicago to recognize the foreclosure problem and get seriously into foreclosure prevention counseling. One result was getting significant City dollars for counseling in general that could be applied to this purpose (now there are 8 organizations doing it with City money). This money is fee for service, so you can't use it for capacity building.

When Bank of America acquired Countrywide, which had many foreclosures as lender or servicer, it agreed to carve out money for foreclosure counseling. City suggested NHS (perhaps among others) and B of A made a 2-yr, $500,000 grant for expanding capacity to NHS—a great help because upfront money, not fee for service.

Clearly having a former NHS manager in a significant position regarding homeownership inside City Hall is helping bring resources in helpful forms. Examples include adding $1 million in general funds to the CDBG money so that borrowers in target neighborhoods can be served even when they have moderately higher incomes and finding a way to make NHS eligible for being able to use repaid City funds in the NLP as a revolving fund instead of repaid to the City as program income.

Other Issues Not Covered Elsewhere

Needed for the future is a sustainable business model for counselors: that if you work with three or four households intensely during the course of a day, someone pays the cost of your time and overhead. That could be servicers but is not as yet. Note that the Obama plan assumes that a significant share of households getting loan modifications are required to seek counseling, based on their financial situation; but no resources are provided to pay the costs of supplying the counseling. So far, post-purchase counseling does not have the acknowledged value that pre-purchase does. It needs to gain on that front in order to make the business model work and to increase the responsiveness of loss mitigation staff at servicers to counselors assisting borrowers. There seems to be some progress on that front, with lenders and servicers calling their staff "counselors." Partly this is because foreclosure counselors were ready to intervene as crisis rose. There is increased recognition of the value of a trusted third party in a context in which borrowers often just tell servicers what they think they want to hear and in which many borrowers decline to contact their lenders no matter how much difficulty they face meeting mortgage obligations.

For the long run, a crucially important response to the subprime disaster must be to “restore confidence in homeownership” for people of modest means, for borrowers, lenders, and policymakers. Analysis is needed to see in what circumstances ownership continued to work—with loans from community banks, pools like the NLP, pre-purchase and post-purchase counseling, etc. What underwriting do we need in order to expand homeownership without running into default problems? Where do down payments fit? In what specific situations did we push the envelope too far?

NHS is confident about the expertise of its own counselors but feels that many people in the field in other agencies are not adequately trained. The lack of expertise may well be reducing the extent to which servicer loss mitigation officers take counselors seriously, including NHS counselors. Having funding sufficient to pay counselors better salaries would likely help with this and other problems in attraction and retention of qualified people.

NHS of Chicago’s strategies and tactics serve as models for other parts of the Chicago foreclosure mitigation apparatus and more widely. HOPI of course has helped lead innovation nationally. The City of Chicago adapted NHS’s pilot mailing to identified borrowers in foreclosure process, inviting them to meet their servicers in individual meetings following a workshop. The City added its leverage to get participation by more servicers/lenders (the HOPI partners) and to get the lenders to send mailing to their respective customers. The Mayor personally promoted the events in the media. Aldermanic offices etc. distributed information about the availability of the workshop/meetings. Thirteen of these were held in 2007 and 2008, serving over 3,000 people; participating servicers have risen to around 10 per session; 10 counseling agencies have participated; Legal Assistance provides individual sessions where appropriate; and other parties including Fannie and Freddie participate in the sessions and mail to their borrowers. The City estimates 50% of borrowers get some kind of arrangement with their lenders. This effort attracted borrowers from well beyond Chicago itself and opened doors to discussions with suburban communities which may copy the effort. The City and lenders are also thinking about virtual versions of this event because the lender staff are spread pretty thin.

National Foreclosure Mitigation Counseling Program Evaluation

Final Report
Rounds 1 and 2
Appendices H – S

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Contents

APPENDIX H – COMPARISON OF CHARACTERISTICS FOR NFMC ANALYSIS SAMPLE AND POPULATION

	NFMC_group		
	All NFMC Loans	NFMC Loans Matched to McDash	NFMC Loans with NFMC Reported Outcome
Counseling Units	960,042	207,641	207,640
% Client's Age Missing	3.25	2.17	2.17
Age 18 to 34	15.04	15.78	15.78
Age 35 to 44	29.65	30.77	30.77
Age 45 to 54	29.93	30.08	30.08
Age 55 to 64	16.09	15.69	15.69
Age 65 and above	6.03	5.51	5.51
Total	100	100	100

	NFMC_group		
	All NFMC Loans	NFMC Loans Matched to McDash	NFMC Loans with NFMC Reported Outcome
Counseling Units	960,042	207,641	207,640
% Client's Income $0 - $20,000	22.43	19.11	19.11
$20,000 - $35,000	23.04	22.28	22.28
$35,000 - $50,000	20.66	21.31	21.31
$50,000 - $75,000	20.42	22.27	22.27
$75,000 - $100,000	8.65	9.52	9.52
$100,000 and above	4.8	5.52	5.52
Total	100	100	100

	NFMC_group		
	All NFMC Loans	NFMC Loans Matched to McDash	NFMC Loans with NFMC Reported Outcome
Counseling Units	960,042	207,641	207,640
% Client's Gender Female	51.89	50.22	50.22
Male	48.11	49.78	49.78
Total	100	100	100

	NFMC_group		
	All NFMC Loans	**NFMC Loans Matched to McDash**	**NFMC Loans with NFMC Reported Outcome**
Counseling Units	960,042	207,641	207,640
% Client's Race/Ethnicity Missing	3.48	3.54	3.54
Non-Hispanic White	40.59	39.7	39.7
Non-Hispanic Black	27.12	25.39	25.39
Hispanic	20.76	23.06	23.06
Non-Hispanic Asian/Pacific Isldr.	3.19	4.01	4.01
Non-Hispanic American Indian	0.34	0.34	0.34
Non-Hispanic Other or Multiple Race	4.51	3.97	3.97
Total	100	100	100

	NFMC_group		
	All NFMC Loans	**NFMC Loans Matched to McDash**	**NFMC Loans with NFMC Reported Outcome**
Counseling Units	960,042	207,641	207,640
% Client's State	0.1	0.12	0.12
AK			
AL	0.74	0.56	0.56
AR	0.32	0.27	0.27
AZ	3.12	3.43	3.43
CA	17.03	21.33	21.33
CO	1.93	2.35	2.35
CT	1	1.13	1.13
DC	0.26	0.3	0.3
DE	0.4	0.41	0.41
FL	7.5	6.98	6.98
GA	3.98	3.88	3.88
GU	0	.	.
HI	0.18	0.13	0.13
IA	0.88	0.83	0.83
ID	0.23	0.25	0.25
IL	5.04	5.47	5.47
IN	1.31	1.21	1.21
KS	0.32	0.31	0.31
KY	1.05	0.6	0.6
LA	0.58	0.42	0.42
MA	2.36	2.25	2.25
MD	4	3.96	3.96
ME	0.24	0.18	0.18
MI	4.38	4.46	4.46
MN	3.43	1.33	1.33
MO	2.21	2.2	2.2
MP	0	.	.
MS	0.98	0.47	0.47
MT	0.32	0.09	0.09
NC	4.03	3.23	3.23
ND	0.04	0.04	0.04
NE	0.19	0.18	0.18
NH	0.23	0.21	0.21
NJ	1.78	2.01	2.01
NM	0.36	0.33	0.33
NV	1.61	2.42	2.42
NY	2.94	3.04	3.04
OH	6.6	5.29	5.29
OK	0.42	0.42	0.42
OR	0.66	0.84	0.84

	NFMC_group		
	All NFMC Loans	NFMC Loans Matched to McDash	NFMC Loans with NFMC Reported Outcome
PA	4.07	4.34	4.34
PR	0.41	0.04	0.04
RI	0.56	0.78	0.78
SC	1.98	1.71	1.71
SD	0.2	0.15	0.15
TN	1.73	1.55	1.55
TX	3.36	3.55	3.55
UT	0.31	0.3	0.3
VA	1.91	1.98	1.98
VI	0	.	.
VT	0.06	0.04	0.04
WA	1.25	1.35	1.35
WI	1.14	1.12	1.12
WV	0.2	0.15	0.15
WY	0.04	0.03	0.03
Total	100	100	100

	NFMC_group		
	All NFMC Loans	NFMC Loans Matched to McDash	NFMC Loans with NFMC Reported Outcome
Counseling Units	960,042	207,641	207,640
% Counseling level Level 1	63.71	51.17	51.17
Level 2	15.06	20.01	20
Level 3	21.22	28.83	28.83
Total	100	100	100

	NFMC_group		
	All NFMC Loans	**NFMC Loans Matched to McDash**	**NFMC Loans with NFMC Reported Outcome**
Counseling Units	960,042	207,641	207,640
% Counseling Intake Date			
Jan-08	0.35	0.29	0.29
Feb-08	0.38	0.32	0.32
Mar-08	2.17	1.67	1.67
Apr-08	2.54	2.03	2.03
May-08	2.59	2.22	2.22
Jun-08	3.02	2.72	2.72
Jul-08	3.96	3.87	3.87
Aug-08	4.06	3.81	3.81
Sep-08	4.04	4.11	4.11
Oct-08	5.24	5.6	5.6
Nov-08	4.41	4.98	4.98
Dec-08	4.74	5.47	5.47
Jan-09	5.48	6.01	6.01
Feb-09	5.67	6.69	6.69
Mar-09	7.99	9.58	9.58
Apr-09	7.34	9.48	9.48
May-09	6.43	7.1	7.1
Jun-09	6.37	5.52	5.52
Jul-09	6.5	5.6	5.6
Aug-09	5.35	4.63	4.63
Sep-09	4.01	3.08	3.08
Oct-09	3.28	2.43	2.43
Nov-09	2.56	1.82	1.82
Dec-09	1.53	0.97	0.97
Total	100	100	100

	NFMC_group		
	All NFMC Loans	**NFMC Loans Matched to McDash**	**NFMC Loans with NFMC Reported Outcome**
Counseling Units	960,042	207,641	207,640
% Counseling Mode Missing	3.25	3.22	3.22
phone	45.89	42.93	42.93
face to face	44.59	48.73	48.73
Internet	2.02	1.51	1.51
video conference	0	0	0
Other	4.26	3.6	3.6
Total	100	100	100

	NFMC_group		
	All NFMC Loans	NFMC Loans Matched to McDash	NFMC Loans with NFMC Reported Outcome
Counseling Units	960,042	207,641	207,640
% Loan Status at Intake Missing	78.37	0	0
0 - Current Loan	6.65	30.72	30.72
1 - 1 mo delinquent	2.53	11.69	11.69
2 - 2 mo delinquent	2.6	12.03	12.03
3 - 3+ mo delinquent	5.69	26.33	26.33
20 - Paid in full	0.01	0.07	0.07
21 - Foreclosure Initiated	3.92	18.11	18.11
22 - Foreclosure Completed	0.23	1.04	1.04
Total	100	100	100

	NFMC_group		
	All NFMC Loans	NFMC Loans Matched to McDash	NFMC Loans with NFMC Reported Outcome
Counseling Units	960,042	207,641	207,640
% Monthly PITI Categories Missing	2.23	1.78	1.78
Less than $500	5.45	2.84	2.84
$500 to $1,000	24.31	20.97	20.97
$1,000 to $1,500	24.58	25.23	25.23
$1,500 to $2,000	17.17	18.87	18.87
More than $2,000	26.26	30.32	30.32
Total	100	100	100

	NFMC_group		
	All NFMC Loans	**NFMC Loans Matched to McDash**	**NFMC Loans with NFMC Reported Outcome**
Counseling Units	960,042	207,641	207,640
% Type of First Loan Product at Intake Missing	0	0	0
Fixed rate currently under 8%	47.59	52.64	52.64
Fixed rate current 8% or greater	12.97	9	9
ARM current under 8%	17.7	19.83	19.83
ARM current at 8% or greater	13.48	11.99	11.99
Other	8.27	6.54	6.54
Total	100	100	100

APPENDIX I – METHODOLOGY FOR MATCHING LPS AND HMDA RECORDS

HMDA loan application records (LARs) for mortgages originated between 2002 and 2008 were match merged with LPS loan records for mortgages that were active as of January 2000 or originated during 2008. The objective was to attain a sufficient number of exact loan matches to generate a comparison sample of LPS loan records containing information on race, gender, ethnicity, and Census tract location obtained from the matching HMDA loan records.

The matching procedure included the following steps:

1. Prepared LPS loan records starting with loans outstanding from January 2008 for matching within counties by assigning LPS 5-digit ZIP codes to 5-digit FIPS state-county codes using commercially available ZIP-to-county conversion data.
2. Prepared extracts of HMDA LARs for originated mortgages for all years from 2002 to 2008. HMDA LARs include information on Census tract, and 5-digit FIPS state-county codes.
3. Develop additional common matching variables for both LPS and HMDA loan records, including:

   FIPS 5-digit State-County Code

   Origination Year

   Original Loan Amount

   Lien Status

   Loan Type (Conventional, FHA, VA, Other)

   Loan Purpose (Purchase, Home Improvement, Refinance)

   Property Type (Single Family, Manufactured, Multi-Family)

   High Interest Rate Loan
4. The HMDA and LPS loan records were matched by successively loading each year of HMDA data and match merging all LPS originated in the corresponding year. First, all LPS loans outstanding in January 2008 were first matched against each year of HMDA data from 2002 through 2008. Then LPS loans originated during 2008 were matched against the HMDA for 2008..
5. Lien status, property type, and ethnicity were included in HMDA only since 2004, so these variables were not used in matching for HMDA years 2002 and 2003. The high-interest-rate loan indicator was excluded from the final matching algorithm due to limitations on the available data in HMDA (reported as yield spread only when exceeding yield on corresponding Treasury maturity by specified margins).

6. Only loans with unique combinations of the variables used for matching were retained as potential candidates for matching. This eliminated the possibility of duplicate matches prior to matching. Thus, each matched pair of HMDA and LPS loans is unique among the possible combinations of county, origination year, loan amount, lien status, loan type, loan purpose, and property type. This conservative approach to matching reduces the potential for measurement error in the variables assigned from HMDA to LPS loans.
7. Matching loan records for each HMDA year were then combined into a single matched-loan file. These loan records included LPS loan IDs and additional variables from HMDA for race, gender, ethnicity, and Census tract location that provide statistical controls comparable to those available for NFMC clients.
8. A total of 35,376,272 LPS loans active as of January 2008 or originated during 2008 were used in matching to HMDA LAR records for loans originated during 2002 to 2008. This resulted in a total of 1,146,823 matched LPS loans.

APPENDIX J – SUMMARY DESCRIPTIVE STATISTICS FOR EXPLANATORY VARIABLES

NFMC Sample Loans, 2008 and 2009

Var	Label	N	Mean	StdDev
Black	Black borrower	180287	0.241	0.428
Asian	Asian/PI borrower	180287	0.042	0.200
OthRace	Other race borrower	180287	0.044	0.205
Hispanic	Hispanic borrower	180287	0.234	0.423
race_miss	race missing	180287	0.036	0.187
hispanic_miss	Hispanic missing	180287	0.023	0.149
year03	Loan originated 2003	180287	0.065	0.247
year04	Loan originated 2004	180287	0.087	0.281
year05	Loan originated 2005	180287	0.198	0.398
year06	Loan originated 2006	180287	0.327	0.469
year07	Loan originated 2007	180287	0.241	0.428
year08		180287	0.053	0.224
CurrentIntRate	Current Interest Rate	180255	6.932	1.443
MrtGrdBC	Grade B/C mortgage	180287	0.199	0.399
IntTypeARM	ARM loan	180287	0.390	0.488
IntTypeOth	Other interest type loan	180287	0.014	0.119
OptionARM	Option ARM loan	180287	0.078	0.268
InvAgency	Agency loan	180287	0.476	0.499
InvGov	Government loan	180287	0.004	0.060
InvPortfolio	Portfolio loan	180287	0.123	0.329
Jumbo	Jumbo loan	180287	0.109	0.312
ApprovalRateHomePurch_06_07	Census tract home mortgage approval rate (%), 2006-07	179949	59.432	11.284
MrtgOrigMedAmt_thou	Census tract median home purchase mortgage origination amount in $1,000s, 2006-07	179929	200.405	110.557
Unemp	Monthly unemployment rate, Jan 2008 (%)	180287	5.555	1.516
Unemp_chg_pct	Pct change in unemp. rate, Jan 2008 - Dec 2009	180287	87.493	26.551
Hpi	Quarterly housing price index (HPI), 2008-Q1	180287	241.342	61.997
Hpi_chg_pct	Pct change in HPI, 2008-Q1 - 2009-Q4	180287	-16.460	10.665

Var	Label	N	Mean	StdDev
LTV	Loan-to-value ratio	165603	81.906	15.915
LTVnot80	Dummy for LTV not = 80	165603	0.823	0.382
OriginalLoanAmt_thou	Original loan amount in $1,000s	166827	234.154	155.149
income_thou	Income in $1,000s	180211	47.160	38.350
dti_missing	DTI Missing	180287	0.415	0.493
dti_20_30	DTI 20 to 30	180287	0.061	0.239
dti_30_40	DTI 30 to 40	180287	0.169	0.375
dti_40_60	DTI 40 to 60	180287	0.274	0.446
dti_60	DTI Over 60	180287	0.059	0.236
FICO_300_500	FICO 300-500	180287	0.005	0.072
FICO_501_550	FICO 501-550	180287	0.049	0.215
FICO_551_600	FICO 551-600	180287	0.115	0.319
FICO_601_650	FICO 601-650	180287	0.211	0.408
FICO_651_700	FICO 651-700	180287	0.221	0.415
FICO_701_750	FICO 701-750	180287	0.155	0.362
FICO_751_800	FICO 751-800	180287	0.070	0.255
FICO_801_850	FICO 801-850	180287	0.004	0.067
FICO_missing	FICO Missing	180287	0.171	0.376

Non-NFMC Sample Loans, 2008 and 2009

Var	Label	N	Mean	StdDev
Black	Black borrower	154927	0.067	0.249
Asian	Asian/PI borrower	154927	0.023	0.149
OthRace	Other race borrower	154927	0.016	0.127
Hispanic	Hispanic borrower	154927	0.062	0.241
race_miss	race missing	154927	0.121	0.326
hispanic_miss	Hispanic missing	154927	0.112	0.315
year03	Loan originated 2003	154927	0.071	0.257
year04	Loan originated 2004	154927	0.102	0.303
year05	Loan originated 2005	154927	0.196	0.397
year06	Loan originated 2006	154927	0.301	0.459
year07	Loan originated 2007	154927	0.236	0.424
year08		154927	0.052	0.223
CurrentIntRate	Current Interest Rate	154927	6.903	1.573
MrtGrdBC	Grade B/C mortgage	154927	0.161	0.367
IntTypeARM	ARM loan	154927	0.396	0.489
IntTypeOth	Other interest type loan	154927	0.007	0.085
OptionARM	Option ARM loan	154927	0.135	0.341
InvAgency	Agency loan	154927	0.437	0.496
InvGov	Government loan	154927	0.002	0.049
InvPortfolio	Portfolio loan	154927	0.173	0.379
Jumbo	Jumbo loan	154927	0.292	0.455
ApprovalRateHomePurch_06_07	Census tract home mortgage approval rate (%), 2006-07	152568	63.958	9.557
MrtgOrigMedAmt_thou	Census tract median home purchase mortgage origination amount in $1,000s, 2006-07	152560	212.533	201.218
Unemp	Monthly unemployment rate, Jan 2008 (%)	154927	5.546	1.530
Unemp_chg_pct	Pct change in unemp. rate, Jan 2008 - Dec 2009	154927	82.981	26.752
Hpi	Quarterly housing price index (HPI), 2008-Q1	154927	294.888	111.285
Hpi_chg_pct	Pct change in HPI, 2008-Q1 - 2009-Q4	154927	-13.365	9.538
LTV	Loan-to-value ratio	146698	78.688	24.113

Var	Label	N	Mean	StdDev
LTVnot80	Dummy for LTV not = 80	146698	0.884	0.320
OriginalLoanAmt_thou	Original loan amount in $1,000s	147775	390.153	533.401
income_thou	Income in $1,000s	144158	137.511	147.615
dti_missing	DTI Missing	154927	0.370	0.483
dti_20_30	DTI 20 to 30	154927	0.082	0.275
dti_30_40	DTI 30 to 40	154927	0.168	0.374
dti_40_60	DTI 40 to 60	154927	0.214	0.410
dti_60	DTI Over 60	154927	0.104	0.305
FICO_300_500	FICO 300-500	154927	0.004	0.065
FICO_501_550	FICO 501-550	154927	0.033	0.178
FICO_551_600	FICO 551-600	154927	0.090	0.286
FICO_601_650	FICO 601-650	154927	0.183	0.387
FICO_651_700	FICO 651-700	154927	0.213	0.409
FICO_701_750	FICO 701-750	154927	0.170	0.376
FICO_751_800	FICO 751-800	154927	0.117	0.322
FICO_801_850	FICO 801-850	154927	0.014	0.119
FICO_missing	FICO Missing	154927	0.176	0.381

APPENDIX K – LOAN MODIFICATION MODEL: DOLLAR REDUCTION IN MONTHLY PAYMENT AMOUNT

Dollar Reduction in Monthly Payment Amount: Entered Counseling

Number of Observations Read	52974
Number of Observations Used	48405
Number of Observations with Missing Values	4569

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	54	6822615682	126344735	235.51	<.0001
Error	48350	25938986062	536484		
Corrected Total	48404	32761601744			

Root MSE	732.45046	R-Square	0.2083
Dependent Mean	415.08295	Adj R-Sq	0.2074
Coeff Var	176.45882		

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	95% Confidence Limits	
Intercept	Intercept	1	-335.17327	55.30639	-6.06	<.0001	-443.57452	-226.77203
Entered_counseling	Entered counseling prior to loan modification	1	175.93483	11.10536	15.84	<.0001	154.16817	197.70148
mod_post_apr09	Mod Post April 09	1	161.61005	10.66198	15.16	<.0001	140.71242	182.50767
mod_post_apr09_int	Mod Post April 09 (Int)	1	-12.76486	14.74006	-0.87	0.3865	-41.65557	16.12584
Delinqintk1	1 mo. late at Intake	1	18.67732	11.54788	1.62	0.1058	-3.95667	41.31131
Delinqintk2	2 mos. late at Intake	1	4.33074	11.42787	0.38	0.7047	-18.06803	26.72952
Delinqintk3	3 mos. late at Intake	1	-30.04814	12.14599	-2.47	0.0134	-53.85444	-6.24184
Delinqintk4	4+ mos. late at Intake	1	-16.13360	9.32986	-1.73	0.0838	-34.42026	2.15306

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	95% Confidence Limits	
prev_current	Current in Month Prior to Mod	1	205.07072	7.88906	25.99	<.0001	189.60805	220.53338
Black	Black borrower	1	36.32626	9.28753	3.91	<.0001	18.12257	54.52995
Asian	Asian/PI borrower	1	2.60586	21.43117	0.12	0.9032	-39.39952	44.61123
OthRace	Other race borrower	1	30.87746	19.19433	1.61	0.1077	-6.74368	68.49860
Hispanic	Hispanic borrower	1	21.40054	10.43234	2.05	0.0402	0.95302	41.84806
race_miss	race missing	1	24.71734	15.00150	1.65	0.0994	-4.68579	54.12047
hispanic_miss	Hispanic missing	1	28.03516	20.26236	1.38	0.1665	-11.67932	67.74965
OriginalLoanAmt_thou	Original Loan Amount in $1,000s	1	0.52414	0.02281	22.98	<.0001	0.47944	0.56884
year03	Loan originated 2003	1	20.85699	24.43174	0.85	0.3933	-27.02954	68.74353
year04	Loan originated 2004	1	48.88983	23.74380	2.06	0.0395	2.35167	95.42799
year05	Loan originated 2005	1	28.38180	22.41002	1.27	0.2053	-15.54213	72.30574
year06	Loan originated 2006	1	71.17095	21.87148	3.25	0.0011	28.30257	114.03934
year07	Loan originated 2007	1	104.48624	22.34559	4.68	<.0001	60.68859	148.28389
year08		1	115.57451	54.89145	2.11	0.0353	7.98656	223.16246
CurrentIntRate	Current Interest Rate	1	10.29461	2.41986	4.25	<.0001	5.55165	15.03757
MrtGrdBC	Grade B/C mortgage	1	238.17288	9.83363	24.22	<.0001	218.89883	257.44692
IntTypeARM	ARM loan	1	144.84250	9.58079	15.12	<.0001	126.06404	163.62097
IntTypeOth	Other interest type loan	1	178.65477	43.32104	4.12	<.0001	93.74498	263.56457
OptionARM	Option ARM loan	1	-261.09660	12.49465	-20.90	<.0001	-285.58627	-236.60693
OptionArm_miss	OptionArm missing	1	-161.48311	21.91700	-7.37	<.0001	-204.44071	-118.52551
InvAgency	Agency loan	1	-57.19831	10.51198	-5.44	<.0001	-77.80193	-36.59468
InvGov	Government loan	1	-62.00603	94.67212	-0.65	0.5125	-247.56462	123.55256
InvPortfolio	Portfolio loan	1	-131.04848	9.88809	-13.25	<.0001	-150.42926	-111.66769
Inv_Miss	Investment missing	1	-546.52113	31.36619	-17.42	<.0001	-607.99926	-485.04299
Jumbo	Jumbo loan	1	259.83353	12.82204	20.26	<.0001	234.70216	284.96489
ApprovalRateHomePurch_06_07	Home mortgage approval rate (%), 2006-07	1	0.73732	0.34993	2.11	0.0351	0.05144	1.42319

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	95% Confidence Limits	
MrtgOrigMedAmt_thou	Median home purchase mortgage amount, 2006-07 avg. ($1,000s)	1	0.36691	0.03606	10.18	<.0001	0.29624	0.43758
Unemp	Unemployment rate, Jan 08	1	-10.81367	2.80808	-3.85	0.0001	-16.31755	-5.30980
Unemp_chg_pct	Pct change in unemp. rate, Jan-Dec 08	1	-0.32697	0.16494	-1.98	0.0474	-0.65025	-0.00369
Hpi	House price index, 2008Q1	1	0.11001	0.04650	2.37	0.0180	0.01887	0.20115
Hpi_chg_pct	Pct change in house price index, 2008Q1-2008Q4	1	-4.60753	0.51227	-8.99	<.0001	-5.61158	-3.60348
LTV	Loan-to-value ratio	1	0.26533	0.20727	1.28	0.2005	-0.14092	0.67157
LTVnot80	Dummy for LTV not = 80	1	-49.67475	9.84654	-5.04	<.0001	-68.97409	-30.37541
income_thou	Income in $1,000s	1	-0.69623	0.05366	-12.98	<.0001	-0.80139	-0.59106
dti_missing	DTI Missing	1	-107.39417	19.79926	-5.42	<.0001	-146.20097	-68.58736
dti_20_30	DTI 20 to 30	1	22.30643	22.92349	0.97	0.3305	-22.62390	67.23676
dti_30_40	DTI 30 to 40	1	81.65663	20.69113	3.95	<.0001	41.10174	122.21151
dti_40_60	DTI 40 to 60	1	166.31219	20.25528	8.21	<.0001	126.61158	206.01279
dti_60	DTI Over 60	1	-69.88799	23.10927	-3.02	0.0025	-115.18247	-24.59352
FICO_300_500	FICO 300-500	1	70.45410	36.98812	1.90	0.0568	-2.04310	142.95130
FICO_501_550	FICO 501-550	1	-8.65126	14.14208	-0.61	0.5407	-36.36992	19.06740
FICO_551_600	FICO 551-600	1	-27.68675	10.53888	-2.63	0.0086	-48.34308	-7.03042
FICO_651_700	FICO 651-700	1	71.55792	10.84718	6.60	<.0001	50.29730	92.81855
FICO_701_750	FICO 701-750	1	127.40675	13.69665	9.30	<.0001	100.56114	154.25237
FICO_751_800	FICO 751-800	1	2.78858	18.74734	0.15	0.8818	-33.95646	39.53362
FICO_801_850	FICO 801-850	1	-91.99499	58.16523	-1.58	0.1137	-205.99960	22.00963
FICO_missing	FICO Missing	1	-69.55693	11.42539	-6.09	<.0001	-91.95084	-47.16301

Dollar Reduction in Monthly Payment Amount: Counseling Levels

Number of Observations Read	52974
Number of Observations Used	48405
Number of Observations with Missing Values	4569

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	58	6875591004	118544672	221.40	<.0001
Error	48346	25886010740	535432		
Corrected Total	48404	32761601744			

Root MSE	731.73241	R-Square	0.2099
Dependent Mean	415.08295	Adj R-Sq	0.2089
Coeff Var	176.28583		

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	95% Confidence Limits	
Intercept	Intercept	1	-339.27505	55.25696	-6.14	<.0001	-447.57942	-230.97068
level_1_intk	L1 Counseling Prior to Loan Mod	1	190.50266	15.29604	12.45	<.0001	160.52223	220.48309
level_2_intk	L2 Counseling Prior to Loan Mod	1	159.25271	18.45313	8.63	<.0001	123.08433	195.42108
level_3_intk	L3 Counseling Prior to Loan Mod	1	181.21715	15.83451	11.44	<.0001	150.18131	212.25299
mod_post_apr09	Mod Post April 09	1	160.20559	10.65299	15.04	<.0001	139.32560	181.08558
mod_post_apr09_lvl1_int	Post-Apr09 L1 Counseling Mod (Int)	1	-87.98560	19.48486	-4.52	<.0001	-126.17619	-49.79502

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	95% Confidence Limits	
mod_post_apr09_lvl2_int	Post-Apr09 L2 Counseling Mod (Int)	1	13.79369	23.13051	0.60	0.5509	-31.54242	59.12980
mod_post_apr09_lvl3_int	Post-Apr09 L3 Counseling Mod (Int)	1	52.71700	19.96893	2.64	0.0083	13.57765	91.85636
Delinqintk1	1 mo. late at Intake	1	21.61519	11.54227	1.87	0.0611	-1.00782	44.23820
Delinqintk2	2 mos. late at Intake	1	7.37363	11.42213	0.65	0.5186	-15.01390	29.76116
Delinqintk3	3 mos. late at Intake	1	-28.42428	12.13589	-2.34	0.0192	-52.21079	-4.63777
Delinqintk4	4+ mos. late at Intake	1	-15.75231	9.32175	-1.69	0.0911	-34.02307	2.51845
prev_current	Current in Month Prior to Mod	1	202.75904	7.88537	25.71	<.0001	187.30361	218.21447
Black	Black borrower	1	27.68442	9.34524	2.96	0.0031	9.36763	46.00120
Asian	Asian/PI borrower	1	-0.87595	21.41354	-0.04	0.9674	-42.84677	41.09487
OthRace	Other race borrower	1	32.58376	19.18488	1.70	0.0894	-5.01886	70.18639
Hispanic	Hispanic borrower	1	17.01021	10.44531	1.63	0.1034	-3.46272	37.48315
race_miss	race missing	1	27.40845	14.99284	1.83	0.0675	-1.97772	56.79461
hispanic_miss	Hispanic missing	1	25.44200	20.24437	1.26	0.2089	-14.23723	65.12123
OriginalLoanAmt_thou	Original Loan Amount in $1,000s	1	0.52262	0.02279	22.94	<.0001	0.47796	0.56728
year03	Loan originated 2003	1	18.86580	24.41054	0.77	0.4396	-28.97918	66.71078
year04	Loan originated 2004	1	46.62847	23.72225	1.97	0.0494	0.13255	93.12438
year05	Loan originated 2005	1	26.52261	22.38913	1.18	0.2362	-17.36038	70.40560
year06	Loan originated 2006	1	68.93592	21.85202	3.15	0.0016	26.10567	111.76617
year07	Loan originated 2007	1	104.10542	22.32499	4.66	<.0001	60.34815	147.86269
year08		1	120.09159	54.83999	2.19	0.0285	12.60449	227.57870

Parameter Estimates

Variable	**Label**	**DF**	**Parameter Estimate**	**Standard Error**	**t Value**	**Pr > |t|**	**95% Confidence Limits**	
CurrentIntRate	Current Interest Rate	1	9.86496	2.41872	4.08	<.0001	5.12425	14.60568
MrtGrdBC	Grade B/C mortgage	1	236.07472	9.82728	24.02	<.0001	216.81312	255.33631
IntTypeARM	ARM loan	1	142.69242	9.57425	14.90	<.0001	123.92677	161.45807
IntTypeOth	Other interest type loan	1	174.48707	43.28214	4.03	<.0001	89.65352	259.32062
OptionARM	Option ARM loan	1	-256.86638	12.49150	-20.56	<.0001	-281.34988	-232.38288
OptionArm_miss	OptionArm missing	1	-156.40962	21.90167	-7.14	<.0001	-199.33717	-113.48207
InvAgency	Agency loan	1	-52.89506	10.51380	-5.03	<.0001	-73.50225	-32.28788
InvGov	Government loan	1	-61.62720	94.57995	-0.65	0.5147	-247.00514	123.75073
InvPortfolio	Portfolio loan	1	-127.94996	9.88377	-12.95	<.0001	-147.32229	-108.57764
Inv_Miss	Investment missing	1	-548.75798	31.33677	-17.51	<.0001	-610.17845	-487.33751
Jumbo	Jumbo loan	1	260.94382	12.81070	20.37	<.0001	235.83467	286.05297
ApprovalRateHomePurch_06_07	Home mortgage approval rate (%), 2006-07	1	0.76222	0.34967	2.18	0.0293	0.07687	1.44758
MrtgOrigMedAmt_thou	Median home purchase mortgage amount, 2006-07 avg. ($1,000s)	1	0.36959	0.03603	10.26	<.0001	0.29898	0.44020
Unemp	Unemployment rate, Jan 08	1	-10.65464	2.80606	-3.80	0.0001	-16.15455	-5.15474
Unemp_chg_pct	Pct change in unemp. rate, Jan-Dec 08	1	-0.29511	0.16487	-1.79	0.0735	-0.61826	0.02805
Hpi	House price index, 2008Q1	1	0.11293	0.04646	2.43	0.0151	0.02187	0.20399
Hpi_chg_pct	Pct change in house price index, 2008Q1-2008Q4	1	-4.71128	0.51210	-9.20	<.0001	-5.71500	-3.70756
LTV	Loan-to-value ratio	1	0.27903	0.20709	1.35	0.1778	-0.12686	0.68493
LTVnot80	Dummy for LTV not = 80	1	-48.95780	9.83734	-4.98	<.0001	-68.23913	-29.67648
income_thou	Income in $1,000s	1	-0.69939	0.05361	-13.05	<.0001	-0.80446	-0.59433

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	95% Confidence Limits	
dti_missing	DTI Missing	1	-104.40579	19.78274	-5.28	<.0001	-143.18022	-65.63136
dti_20_30	DTI 20 to 30	1	21.69065	22.90139	0.95	0.3436	-23.19637	66.57767
dti_30_40	DTI 30 to 40	1	79.29748	20.67310	3.84	0.0001	38.77793	119.81702
dti_40_60	DTI 40 to 60	1	164.21865	20.23683	8.11	<.0001	124.55420	203.88310
dti_60	DTI Over 60	1	-69.05091	23.08727	-2.99	0.0028	-114.30226	-23.79956
FICO_300_500	FICO 300-500	1	70.26745	36.95461	1.90	0.0572	-2.16407	142.69897
FICO_501_550	FICO 501-550	1	-8.85237	14.12974	-0.63	0.5310	-36.54684	18.84211
FICO_551_600	FICO 551-600	1	-27.14758	10.52910	-2.58	0.0099	-47.78475	-6.51041
FICO_651_700	FICO 651-700	1	71.64088	10.83683	6.61	<.0001	50.40055	92.88122
FICO_701_750	FICO 701-750	1	127.70250	13.68336	9.33	<.0001	100.88294	154.52206
FICO_751_800	FICO 751-800	1	4.21483	18.73075	0.23	0.8220	-32.49769	40.92735
FICO_801_850	FICO 801-850	1	-96.67718	58.11087	-1.66	0.0962	-210.57525	17.22089
FICO_missing	FICO Missing	1	-68.40168	11.41520	-5.99	<.0001	-90.77562	-46.02773

APPENDIX L - LOAN MODIFICATION MODEL: PERCENT REDUCTION IN MONTHLY PAYMENT AMOUNT

Percent Reduction in Monthly Payment Amount: Entered Counseling

Number of Observations Read	52974
Number of Observations Used	48405
Number of Observations with Missing Values	4569

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	54	5766306	106783	220.26	<.0001
Error	48350	23440671	484.81222		
Corrected Total	48404	29206977			

Root MSE	22.01845	R-Square	0.1974
Dependent Mean	17.15176	Adj R-Sq	0.1965
Coeff Var	128.37430		

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	95% Confidence Limits	
Intercept	Intercept	1	0.82696	1.66258	0.50	0.6189	-2.43173	4.08565
Entered_counseling	Entered counseling prior to loan modification	1	7.78891	0.33384	23.33	<.0001	7.13457	8.44324
mod_post_apr09	Mod Post April 09	1	6.51445	0.32051	20.33	<.0001	5.88624	7.14266
mod_post_apr09_int	Mod Post April 09 (Int)	1	0.15889	0.44311	0.36	0.7199	-0.70961	1.02738
Delinqintk1	1 mo. late at Intake	1	0.24102	0.34714	0.69	0.4875	-0.43939	0.92143
Delinqintk2	2 mos. late at Intake	1	-0.96063	0.34354	-2.80	0.0052	-1.63396	-0.28729

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	95% Confidence Limits	
Delinqintk3	3 mos. late at Intake	1	-1.85607	0.36512	-5.08	<.0001	-2.57172	-1.14042
Delinqintk4	4+ mos. late at Intake	1	-2.60409	0.28047	-9.28	<.0001	-3.15381	-2.05437
prev_current	Current in Month Prior to Mod	1	8.99195	0.23716	37.92	<.0001	8.52712	9.45678
Black	Black borrower	1	0.51002	0.27920	1.83	0.0677	-0.03721	1.05724
Asian	Asian/PI borrower	1	-0.57946	0.64425	-0.90	0.3684	-1.84220	0.68327
OthRace	Other race borrower	1	0.09032	0.57701	0.16	0.8756	-1.04062	1.22126
Hispanic	Hispanic borrower	1	0.44620	0.31361	1.42	0.1548	-0.16848	1.06088
race_miss	race missing	1	0.29703	0.45097	0.66	0.5101	-0.58687	1.18093
hispanic_miss	Hispanic missing	1	0.70795	0.60911	1.16	0.2451	-0.48593	1.90182
OriginalLoanAmt_thou	Original Loan Amount in $1,000s	1	-0.00140	0.00068557	-2.04	0.0418	-0.00274	-0.00005154
year03	Loan originated 2003	1	-0.02001	0.73445	-0.03	0.9783	-1.45954	1.41953
year04	Loan originated 2004	1	0.66411	0.71377	0.93	0.3522	-0.73489	2.06311
year05	Loan originated 2005	1	1.06703	0.67368	1.58	0.1132	-0.25339	2.38744
year06	Loan originated 2006	1	2.66447	0.65749	4.05	<.0001	1.37579	3.95315
year07	Loan originated 2007	1	4.07171	0.67174	6.06	<.0001	2.75509	5.38832
year08		1	-7.58616	1.65011	-4.60	<.0001	-10.82040	-4.35192
CurrentIntRate	Current Interest Rate	1	0.47683	0.07274	6.55	<.0001	0.33425	0.61941
MrtGrdBC	Grade B/C mortgage	1	7.92604	0.29561	26.81	<.0001	7.34664	8.50545
IntTypeARM	ARM loan	1	5.17399	0.28801	17.96	<.0001	4.60949	5.73850
IntTypeOth	Other interest type loan	1	3.22753	1.30229	2.48	0.0132	0.67503	5.78004

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	95% Confidence Limits	
OptionARM	Option ARM loan	1	-3.61516	0.37561	-9.62	<.0001	-4.35135	-2.87896
OptionArm_miss	OptionArm missing	1	-0.69408	0.65885	-1.05	0.2921	-1.98544	0.59729
InvAgency	Agency loan	1	-0.26064	0.31600	-0.82	0.4095	-0.88001	0.35874
InvGov	Government loan	1	-3.20595	2.84597	-1.13	0.2600	-8.78409	2.37219
InvPortfolio	Portfolio loan	1	0.12085	0.29725	0.41	0.6843	-0.46176	0.70346
Inv_Miss	Investment missing	1	-10.16216	0.94291	-10.78	<.0001	-12.01028	-8.31405
Jumbo	Jumbo loan	1	-0.59850	0.38545	-1.55	0.1205	-1.35399	0.15698
ApprovalRateHomePurch_06_07	Home mortgage approval rate (%), 2006-07	1	-0.01727	0.01052	-1.64	0.1006	-0.03789	0.00335
MrtgOrigMedAmt_thou	Median home purchase mortgage amount, 2006-07 avg. ($1,000s)	1	0.00136	0.00108	1.25	0.2107	-0.00076765	0.00348
Unemp	Unemployment rate, Jan 08	1	0.15672	0.08441	1.86	0.0634	-0.00874	0.32217
Unemp_chg_pct	Pct change in unemp. rate, Jan-Dec 08	1	0.00244	0.00496	0.49	0.6224	-0.00728	0.01216
Hpi	House price index, 2008Q1	1	0.00102	0.00140	0.73	0.4672	-0.00172	0.00376
Hpi_chg_pct	Pct change in house price index, 2008Q1-2008Q4	1	-0.07967	0.01540	-5.17	<.0001	-0.10985	-0.04949
LTV	Loan-to-value ratio	1	-0.05231	0.00623	-8.40	<.0001	-0.06452	-0.04010
LTVnot80	Dummy for LTV not = 80	1	-1.19394	0.29600	-4.03	<.0001	-1.77410	-0.61378
income_thou	Income in $1,000s	1	-0.00740	0.00161	-4.59	<.0001	-0.01057	-0.00424
dti_missing	DTI Missing	1	-4.63179	0.59519	-7.78	<.0001	-5.79838	-3.46521
dti_20_30	DTI 20 to 30	1	0.29037	0.68911	0.42	0.6735	-1.06030	1.64103
dti_30_40	DTI 30 to 40	1	0.60633	0.62200	0.97	0.3297	-0.61280	1.82547
dti_40_60	DTI 40 to 60	1	1.76270	0.60890	2.89	0.0038	0.56925	2.95615
dti_60	DTI Over 60	1	-2.22190	0.69470	-3.20	0.0014	-3.58352	-0.86029

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	95% Confidence Limits	
FICO_300_500	FICO 300-500	1	-1.06294	1.11191	-0.96	0.3391	-3.24230	1.11643
FICO_501_550	FICO 501-550	1	-1.34030	0.42513	-3.15	0.0016	-2.17356	-0.50704
FICO_551_600	FICO 551-600	1	-1.30930	0.31681	-4.13	<.0001	-1.93026	-0.68835
FICO_651_700	FICO 651-700	1	2.63519	0.32608	8.08	<.0001	1.99606	3.27431
FICO_701_750	FICO 701-750	1	3.38703	0.41174	8.23	<.0001	2.58001	4.19404
FICO_751_800	FICO 751-800	1	1.85376	0.56357	3.29	0.0010	0.74916	2.95837
FICO_801_850	FICO 801-850	1	-2.74908	1.74853	-1.57	0.1159	-6.17622	0.67805
FICO_missing	FICO Missing	1	0.44796	0.34346	1.30	0.1922	-0.22523	1.12115

Percent Reduction in Monthly Payment Amount: Counseling Levels

Number of Observations Read	52974
Number of Observations Used	48405
Number of Observations with Missing Values	4569

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	58	5807932	100137	206.90	<.0001
Error	48346	23399045	483.99132		
Corrected Total	48404	29206977			

Root MSE	21.99980	R-Square	0.1989
Dependent Mean	17.15176	Adj R-Sq	0.1979
Coeff Var	128.26557		

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	95% Confidence Limits	
Intercept	Intercept	1	0.68748	1.66132	0.41	0.6790	-2.56873	3.94369
level_1_intk	L1 Counseling Prior to Loan Mod	1	7.74237	0.45988	16.84	<.0001	6.84100	8.64374
level_2_intk	L2 Counseling Prior to Loan Mod	1	7.52768	0.55480	13.57	<.0001	6.44027	8.61510
level_3_intk	L3 Counseling Prior to Loan Mod	1	8.29894	0.47607	17.43	<.0001	7.36584	9.23205
mod_post_apr09	Mod Post April 09	1	6.47304	0.32029	20.21	<.0001	5.84528	7.10081
mod_post_apr09_lvl1_int	Post-Apr09 L1 Counseling Mod (Int)	1	-1.47102	0.58582	-2.51	0.0120	-2.61923	-0.32280
mod_post_apr09_lvl2_int	Post-Apr09 L2 Counseling Mod (Int)	1	0.62609	0.69543	0.90	0.3680	-0.73696	1.98914

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	95% Confidence Limits	
mod_post_apr09_lvl3_int	Post-Apr09 L3 Counseling Mod (Int)	1	1.67713	0.60037	2.79	0.0052	0.50039	2.85387
Delinqintk1	1 mo. late at Intake	1	0.33095	0.34702	0.95	0.3403	-0.34922	1.01112
Delinqintk2	2 mos. late at Intake	1	-0.87073	0.34341	-2.54	0.0112	-1.54382	-0.19764
Delinqintk3	3 mos. late at Intake	1	-1.80806	0.36487	-4.96	<.0001	-2.52321	-1.09291
Delinqintk4	4+ mos. late at Intake	1	-2.59055	0.28026	-9.24	<.0001	-3.13987	-2.04123
prev_current	Current in Month Prior to Mod	1	8.92502	0.23708	37.65	<.0001	8.46035	9.38970
Black	Black borrower	1	0.24430	0.28097	0.87	0.3846	-0.30640	0.79500
Asian	Asian/PI borrower	1	-0.68210	0.64381	-1.06	0.2894	-1.94397	0.57976
OthRace	Other race borrower	1	0.16093	0.57680	0.28	0.7802	-0.96961	1.29147
Hispanic	Hispanic borrower	1	0.30534	0.31404	0.97	0.3309	-0.31018	0.92087
race_miss	race missing	1	0.38279	0.45077	0.85	0.3958	-0.50072	1.26629
hispanic_miss	Hispanic missing	1	0.63295	0.60865	1.04	0.2984	-0.56002	1.82592
OriginalLoanAmt_thou	Original Loan Amount in $1,000s	1	-0.00145	0.00068504	-2.11	0.0346	-0.00279	-0.00010480
year03	Loan originated 2003	1	-0.06647	0.73391	-0.09	0.9278	-1.50495	1.37201
year04	Loan originated 2004	1	0.60390	0.71322	0.85	0.3972	-0.79401	2.00182
year05	Loan originated 2005	1	1.01872	0.67314	1.51	0.1302	-0.30063	2.33808
year06	Loan originated 2006	1	2.60637	0.65699	3.97	<.0001	1.31866	3.89408
year07	Loan originated 2007	1	4.06828	0.67121	6.06	<.0001	2.75270	5.38386
year08		1	-7.45962	1.64878	-4.52	<.0001	-10.69126	-4.22798
CurrentIntRate	Current Interest Rate	1	0.46256	0.07272	6.36	<.0001	0.32003	0.60509
MrtGrdBC	Grade B/C mortgage	1	7.86303	0.29546	26.61	<.0001	7.28392	8.44213
IntTypeARM	ARM loan	1	5.11173	0.28785	17.76	<.0001	4.54753	5.67592
IntTypeOth	Other interest type loan	1	3.11879	1.30129	2.40	0.0165	0.56824	5.66934
OptionARM	Option ARM loan	1	-3.49039	0.37556	-9.29	<.0001	-4.22649	-2.75428
OptionArm_miss	OptionArm missing	1	-0.54988	0.65848	-0.84	0.4037	-1.84051	0.74075
InvAgency	Agency loan	1	-0.13751	0.31610	-0.44	0.6635	-0.75707	0.48205

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	95% Confidence Limits	
InvGov	Government loan	1	-3.19467	2.84358	-1.12	0.2612	-8.76812	2.37879
InvPortfolio	Portfolio loan	1	0.21030	0.29716	0.71	0.4791	-0.37214	0.79273
Inv_Miss	Investment missing	1	-10.23139	0.94215	-10.86	<.0001	-12.07802	-8.38476
Jumbo	Jumbo loan	1	-0.56174	0.38516	-1.46	0.1447	-1.31665	0.19318
ApprovalRateHomePurch_06_07	Home mortgage approval rate (%), 2006-07	1	-0.01646	0.01051	-1.57	0.1174	-0.03707	0.00414
MrtgOrigMedAmt_thou	Median home purchase mortgage amount, 2006-07 avg. ($1,000s)	1	0.00144	0.00108	1.33	0.1823	-0.00067834	0.00357
Unemp	Unemployment rate, Jan 08	1	0.16189	0.08437	1.92	0.0550	-0.00347	0.32725
Unemp_chg_pct	Pct change in unemp. rate, Jan-Dec 08	1	0.00351	0.00496	0.71	0.4786	-0.00620	0.01323
Hpi	House price index, 2008Q1	1	0.00112	0.00140	0.80	0.4239	-0.00162	0.00385
Hpi_chg_pct	Pct change in house price index, 2008Q1-2008Q4	1	-0.08296	0.01540	-5.39	<.0001	-0.11314	-0.05278
LTV	Loan-to-value ratio	1	-0.05191	0.00623	-8.34	<.0001	-0.06412	-0.03971
LTVnot80	Dummy for LTV not = 80	1	-1.17407	0.29576	-3.97	<.0001	-1.75377	-0.59437
dti_missing	DTI Missing	1	-4.54333	0.59478	-7.64	<.0001	-5.70909	-3.37756
dti_20_30	DTI 20 to 30	1	0.27846	0.68854	0.40	0.6859	-1.07109	1.62800
dti_30_40	DTI 30 to 40	1	0.54152	0.62154	0.87	0.3836	-0.67671	1.75976
dti_40_60	DTI 40 to 60	1	1.70438	0.60843	2.80	0.0051	0.51186	2.89691
dti_60	DTI Over 60	1	-2.19809	0.69413	-3.17	0.0015	-3.55859	-0.83760
FICO_300_500	FICO 300-500	1	-1.06107	1.11105	-0.96	0.3396	-3.23875	1.11661
FICO_501_550	FICO 501-550	1	-1.34977	0.42482	-3.18	0.0015	-2.18242	-0.51713
FICO_551_600	FICO 551-600	1	-1.29274	0.31656	-4.08	<.0001	-1.91321	-0.67228
FICO_651_700	FICO 651-700	1	2.63470	0.32581	8.09	<.0001	1.99611	3.27330
FICO_701_750	FICO 701-750	1	3.39303	0.41140	8.25	<.0001	2.58669	4.19937

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|	95% Confidence Limits	
FICO_751_800	FICO 751-800	1	1.88387	0.56315	3.35	0.0008	0.78010	2.98765
FICO_801_850	FICO 801-850	1	-2.88957	1.74712	-1.65	0.0982	-6.31396	0.53482
FICO_missing	FICO Missing	1	0.47839	0.34320	1.39	0.1634	-0.19430	1.15107
income_thou	Income in $1,000s	1	-0.00749	0.00161	-4.65	<.0001	-0.01065	-0.00434

APPENDIX M – LOAN MODIFICATION CURE REDEFAULT MODEL: LOAN PAYMENT REDUCTION AMOUNT

Loan Payment Reduction Amount Parameter Estimates: Entered Counseling

Source	SS	df	MS		
Model	6.78E+09	54	1.25E+08		Number of obs = 48405
Residual	2.60E+10	48350	537454.4		Prob > F = 0.0000
Total	3.28E+10	48404	676836.7		R-squared = 0.2068
					Adj R-squared = 0.2059
					Root MSE = 733.11

MOPICONSTA~d	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
Entered_counseling	178.3032	11.11537	16.04	0	156.5169	200.0895
mod_post_apr09	164.615	10.66681	15.43	0	143.7079	185.5221
mod_post_a~t	-14.81238	14.75181	-1	0.315	-43.7261	14.10135
Delinqintk1	16.86414	11.55728	1.46	0.145	-5.78827	39.51656
Delinqintk2	2.689847	11.43793	0.24	0.814	-19.7286	25.10834
Delinqintk3	-31.88538	12.15668	-2.62	0.009	-55.7126	-8.05814
Delinqintk4	-17.9245	9.342788	-1.92	0.055	-36.2365	0.387492
prev_current	188.3522	7.773103	24.23	0	173.1169	203.5876
incK	-0.6955454	0.053706	-12.95	0	-0.80081	-0.59028
Black	37.17334	9.296662	4	0	18.95176	55.39492
Asian	2.091953	21.45054	0.1	0.922	-39.9514	44.13529
OthRace	33.01343	19.21341	1.72	0.086	-4.64511	70.67197
race_miss	25.13463	15.01507	1.67	0.094	-4.29511	54.56436
Hispanic	21.47401	10.44189	2.06	0.04	1.007763	41.94026
hispanic_m~s	29.49966	20.28065	1.45	0.146	-10.2507	69.24999
dti_missing	-105.0157	19.81571	-5.3	0	-143.855	-66.1767
dti_20_30	24.50882	22.9434	1.07	0.285	-20.4606	69.47818
dti_30_40	81.50277	20.71114	3.94	0	40.90866	122.0969
dti_40_60	166.5585	20.27482	8.22	0	126.8196	206.2974
dti_60	-67.57725	23.12906	-2.92	0.003	-112.911	-22.244
FICO_MISS	-69.87698	11.43571	-6.11	0	-92.2911	-47.4628
FICO_300_500	70.43577	37.02166	1.9	0.057	-2.12717	142.9987
FICO_501_550	-5.933223	14.15365	-0.42	0.675	-33.6746	21.80812
FICO_551_600	-26.15857	10.54808	-2.48	0.013	-46.833	-5.48419
FICO_651_700	69.63939	10.85624	6.41	0	48.36102	90.91775
FICO_701_750	124.8821	13.70866	9.11	0	98.01296	151.7513
FICO_751_800	2.005972	18.76607	0.11	0.915	-34.7758	38.78771
FICO_801_850	-91.81624	58.21966	-1.58	0.115	-205.928	22.29505
OriginalLo~u	0.5202864	0.022824	22.8	0	0.475552	0.565021
year03	19.21857	24.45342	0.79	0.432	-28.7104	67.14759
year04	48.63553	23.76526	2.05	0.041	2.055319	95.21575
year05	28.64649	22.43038	1.28	0.202	-15.3174	72.61032
year06	71.77859	21.89129	3.28	0.001	28.87137	114.6858
year07	101.9943	22.36478	4.56	0	58.15906	145.8296
year08	112.3016	54.94053	2.04	0.041	4.617472	219.9858
CurrentInt~e	9.616005	2.420993	3.97	0	4.870826	14.36118
MrtGrdBC	239.7965	9.842053	24.36	0	220.5059	259.087
IntTypeARM	145.3983	9.589305	15.16	0	126.6032	164.1935
IntTypeOth	179.8481	43.36004	4.15	0	94.86181	264.8343

OptionARM	-259.4258	12.51368	-20.73	0	-283.953	-234.899
OptionArm_~s	-162.5067	21.93686	-7.41	0	-205.503	-119.51
InvAgency	-58.7718	10.52014	-5.59	0	-79.3914	-38.1522
InvGov	-67.11099	94.75664	-0.71	0.479	-252.835	118.6133
InvPortfolio	-130.0253	9.89653	-13.14	0	-149.423	-110.628
Inv_Miss	-548.449	31.4037	-17.46	0	-610.001	-486.897
Jumbo	260.058	12.83379	20.26	0	234.9036	285.2124
AppRtHm~0607	0.7706361	0.350252	2.2	0.028	0.084137	1.457135
MrtgOrigMe~u	0.3683476	0.036089	10.21	0	0.297612	0.439083
Unemp	-10.78769	2.81062	-3.84	0	-16.2965	-5.27884
Unemp_chg_~t	-0.3331176	0.165089	-2.02	0.044	-0.65669	-0.00954
Hpi	0.1134562	0.046541	2.44	0.015	0.022236	0.204676
Hpi_chg_pct	-4.569257	0.51272	-8.91	0	-5.57419	-3.56432
LTV	0.3103798	0.207419	1.5	0.135	-0.09616	0.716924
LTVnot80	-48.99236	9.855251	-4.97	0	-68.3088	-29.6759
_cons	-323.2063	55.35571	-5.84	0	-431.704	-214.708

Loan Payment Reduction Amount Parameter Estimates: Counseling Levels

Source	SS	df	MS		
Model	6.83E+09	58	1.18E+08	Prob > F =	0.0000
Residual	2.59E+10	48346	536409.5	R-squared =	0.2084
				Adj R-squared =	0.2075
Total	3.28E+10	48404	676836.7	Root MSE =	732.4

Number of obs = 48405

MOPICONSTA~d	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
EC_LEVEL_1	192.6161	15.31062	12.58	0	162.6071	222.6251
EC_LEVEL_2	162.6586	18.46714	8.81	0	126.4627	198.8544
EC_LEVEL_3	183.2671	15.85071	11.56	0	152.1995	214.3347
mod_post_~09	163.2247	10.65789	15.31	0	142.3351	184.1143
mod_post_a~1	-89.6554	19.50193	-4.6	0	-127.879	-51.4314
mod_post_a~2	10.88852	23.15001	0.47	0.638	-34.4858	56.26284
mod_post_a~3	50.84839	19.98627	2.54	0.011	11.67505	90.02174
Delinqintk1	19.77018	11.5517	1.71	0.087	-2.87129	42.41166
Delinqintk2	5.697283	11.43219	0.5	0.618	-16.71	28.10453
Delinqintk3	-30.3043	12.1466	-2.49	0.013	-54.1118	-6.49682
Delinqintk4	-17.6067	9.334687	-1.89	0.059	-35.9028	0.689408
prev_current	185.821	7.77028	23.91	0	170.5911	201.0508
incK	-0.69869	0.053655	-13.02	0	-0.80385	-0.59352
Black	28.51524	9.354705	3.05	0.002	10.1799	46.85059
Asian	-1.37718	21.43305	-0.06	0.949	-43.3862	40.63187
OthRace	34.69113	19.20404	1.81	0.071	-2.94903	72.33129
race_miss	27.82142	15.00651	1.85	0.064	-1.59153	57.23438
Hispanic	17.07021	10.45499	1.63	0.103	-3.42171	37.56213
hispanic_m~s	26.89219	20.26283	1.33	0.184	-12.8232	66.60759
dti_missing	-102.04	19.79932	-5.15	0	-140.847	-63.2335
dti_20_30	23.88426	22.92147	1.04	0.297	-21.0421	68.81064
dti_30_40	79.17395	20.69322	3.83	0	38.61497	119.7329
dti_40_60	164.5036	20.25647	8.12	0	124.8007	204.2066
dti_60	-66.7293	23.10724	-2.89	0.004	-112.02	-21.4388
FICO_MISS	-68.7284	11.4256	-6.02	0	-91.1227	-46.334
FICO_300_500	70.26775	36.98841	1.9	0.057	-2.23001	142.7655
FICO_501_550	-6.14632	14.14141	-0.43	0.664	-33.8637	21.57103
FICO_551_600	-25.6306	10.53837	-2.43	0.015	-46.2859	-4.97525
FICO_651_700	69.73942	10.84596	6.43	0	48.48119	90.99765
FICO_701_750	125.2049	13.69547	9.14	0	98.36164	152.0482
FICO_751_800	3.460149	18.74963	0.18	0.854	-33.2894	40.20966
FICO_801_850	-96.4293	58.16565	-1.66	0.097	-210.435	17.57614
OriginalLo~u	0.518783	0.022803	22.75	0	0.474088	0.563477
year03	17.25018	24.43238	0.71	0.48	-30.6376	65.13797
year04	46.38529	23.74387	1.95	0.051	-0.15301	92.92359
year05	26.79009	22.40965	1.2	0.232	-17.1331	70.7133
year06	69.54684	21.872	3.18	0.001	26.67745	112.4162
year07	101.6425	22.34435	4.55	0	57.84724	145.4377
year08	116.8465	54.88949	2.13	0.033	9.262331	224.4306

CurrentInt~e	9.180764	2.419867	3.79	0	4.437794	13.92373
MrtGrdBC	237.6834	9.835818	24.17	0	218.4051	256.9617
IntTypeARM	143.2545	9.582841	14.95	0	124.472	162.037
IntTypeOth	175.6838	43.32144	4.06	0	90.7732	260.5944
OptionARM	-255.274	12.51037	-20.4	0	-279.794	-230.753
OptionArm_~s	-157.436	21.92172	-7.18	0	-200.403	-114.469
InvAgency	-54.4779	10.52204	-5.18	0	-75.1013	-33.8546
InvGov	-66.7045	94.66512	-0.7	0.481	-252.249	118.8404
InvPortfolio	-126.94	9.892278	-12.83	0	-146.329	-107.551
Inv_Miss	-550.576	31.3744	-17.55	0	-612.07	-489.082
Jumbo	261.1569	12.82253	20.37	0	236.0246	286.2892
AppRtHm~0607	0.795208	0.349989	2.27	0.023	0.109225	1.481192
MrtgOrigMe~u	0.371029	0.036058	10.29	0	0.300354	0.441703
Unemp	-10.6266	2.808614	-3.78	0	-16.1315	-5.12168
Unemp_chg_~t	-0.30136	0.165022	-1.83	0.068	-0.6248	0.02209
Hpi	0.116347	0.0465	2.5	0.012	0.025206	0.207488
Hpi_chg_pct	-4.67348	0.512554	-9.12	0	-5.67809	-3.66886
LTV	0.323705	0.207241	1.56	0.118	-0.08249	0.729899
LTVnot80	-48.2848	9.846126	-4.9	0	-67.5833	-28.9863
_cons	-327.08	55.30649	-5.91	0	-435.481	-218.678

APPENDIX N - LOAN MODIFICATION CURE REDEFAULT MODEL: IMPACT OF COUNSELING ON REDEFAULT

Impact of Counseling on Redefault,
Parameter Estimates: Entered Counseling

Logistic regression	Number of obs = 464424
	LR chi2(55) = 11555.49
	Prob > chi2 = 0.0000
Log likelihood = -65618.738	Pseudo R2 = 0.0809

Event	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
mod_post_apr09	-0.86792	0.029854	-29.07	0	-0.92644	-0.80941
Post_couns~d	-0.88316	0.042387	-20.84	0	-0.96624	-0.80008
ie_term	0.167484	0.037181	4.5	0	0.094611	0.240357
PRE_EC_NW_~G	0.595115	0.037925	15.69	0	0.520784	0.669446
POST_EC_NW~G	0.593034	0.042281	14.03	0	0.510165	0.675902
MoPmt_redu~u	-0.22259	0.014616	-15.23	0	-0.25123	-0.19394
Months_mod	0.344447	0.005592	61.6	0	0.333488	0.355407
Months_mod~q	-0.01488	0.000289	-51.48	0	-0.01545	-0.01431
PrincipalB~d	-0.21469	0.106466	-2.02	0.044	-0.42336	-0.00602
incK	0.000311	0.000168	1.85	0.064	-1.8E-05	0.000641
Black	0.075883	0.022138	3.43	0.001	0.032494	0.119272
Asian	0.037901	0.055732	0.68	0.496	-0.07133	0.147134
OthRace	0.104762	0.045668	2.29	0.022	0.015255	0.194269
RACE_MISS	-0.12599	0.041176	-3.06	0.002	-0.20669	-0.04529
Hispanic	0.019862	0.025096	0.79	0.429	-0.02933	0.069049
hispanic_miss	0.128677	0.050987	2.52	0.012	0.028745	0.228609
dti_missing	-0.14453	0.056837	-2.54	0.011	-0.25593	-0.03313
dti_20_30	-0.0384	0.065086	-0.59	0.555	-0.16597	0.089166
dti_30_40	-0.01904	0.058969	-0.32	0.747	-0.13462	0.096537
dti_40_60	0.070671	0.058001	1.22	0.223	-0.04301	0.184351
dti_60	0.068002	0.063789	1.07	0.286	-0.05702	0.193026
FICO_MISS	-0.25197	0.027974	-9.01	0	-0.3068	-0.19714
FICO_300_500	0.335449	0.083145	4.03	0	0.172489	0.49841
FICO_501_550	0.236097	0.031996	7.38	0	0.173385	0.298808
FICO_551_600	0.126974	0.024346	5.22	0	0.079257	0.174691
FICO_651_700	-0.19438	0.025973	-7.48	0	-0.24529	-0.14348
FICO_701_750	-0.38385	0.035635	-10.77	0	-0.45369	-0.31401
FICO_751_800	-0.59689	0.059969	-9.95	0	-0.71442	-0.47935
FICO_801_850	-0.61355	0.254164	-2.41	0.016	-1.11171	-0.1154
OriginalLo~u	0.000778	9.66E-05	8.05	0	0.000589	0.000968
year03	0.026149	0.058627	0.45	0.656	-0.08876	0.141056
year04	0.020818	0.056341	0.37	0.712	-0.08961	0.131244
year05	0.072363	0.053025	1.36	0.172	-0.03156	0.17629
year06	0.127794	0.051695	2.47	0.013	0.026475	0.229114
year07	0.172138	0.052842	3.26	0.001	0.06857	0.275706
year08	0.205833	0.133956	1.54	0.124	-0.05672	0.468382
CurrentInt~e	-0.00043	0.006421	-0.07	0.947	-0.01301	0.012159
MrtGrdBC	0.001225	0.025232	0.05	0.961	-0.04823	0.050679

IntTypeARM	-0.01095	0.023183	-0.47	0.637	-0.05639	0.034489
IntTypeOth	0.208231	0.078401	2.66	0.008	0.054569	0.361894
OptionARM	-0.12874	0.034454	-3.74	0	-0.19626	-0.06121
OptionArm_~s	-0.35609	0.067254	-5.29	0	-0.48791	-0.22427
InvAgency	-0.00141	0.025357	-0.06	0.956	-0.05111	0.048286
InvGov	0.405804	0.206213	1.97	0.049	0.001634	0.809974
InvPortfolio	-0.08193	0.026916	-3.04	0.002	-0.13468	-0.02917
Inv_Miss	-0.58651	0.359138	-1.63	0.102	-1.29041	0.117389
Jumbo	-0.00675	0.038436	-0.18	0.861	-0.08208	0.068584
AppRtHm~0607	0.001778	0.000844	2.11	0.035	0.000124	0.003431
MrtgOrigMe~u	-0.0001	0.000125	-0.83	0.405	-0.00035	0.000141
Unemp	-0.00167	0.004119	-0.41	0.684	-0.00975	0.006398
Unemp_chg_~t	0.001031	0.000303	3.41	0.001	0.000438	0.001625
Hpi	6.74E-05	0.000135	0.5	0.616	-0.0002	0.000331
Hpi_chg_pct	0.000233	0.001174	0.2	0.843	-0.00207	0.002535
LTV	0.002839	0.000403	7.05	0	0.00205	0.003628
LTVnot80	0.072894	0.025032	2.91	0.004	0.023832	0.121957
_cons	-4.50748	0.133105	-33.86	0	-4.76836	-4.2466

**Impact of Counseling on Redefault,
Odds Ratios: Entered Counseling**

Logistic regression	Number of obs = 464424
	LR chi2(55) = 11555.49
	Prob > chi2 = 0.0000
Log likelihood = -65618.738	Pseudo R2 = 0.0809

Event	Odds Ratio	Std. Err.	z	P>|z|	[95% Conf.	Interval]
mod_post_~09	0.419822	0.012533	-29.07	0	0.395962	0.44512
Post_couns~d	0.413475	0.017526	-20.84	0	0.380512	0.449292
ie_term	1.182327	0.04396	4.5	0	1.099232	1.271703
PRE_EC_NW_~G	1.813239	0.068767	15.69	0	1.683346	1.953154
POST_EC_NW~G	1.809469	0.076505	14.03	0	1.665567	1.965805
MoPmt_redu~u	0.800447	0.011699	-15.23	0	0.777843	0.823708
Months_mod	1.41121	0.007891	61.6	0	1.395828	1.426761
Months_mod~q	0.985229	0.000285	-51.48	0	0.984671	0.985787
PrincipalB~d	0.806795	0.085896	-2.02	0.044	0.654846	0.994001
incK	1.000311	0.000168	1.85	0.064	0.999982	1.000641
Black	1.078836	0.023883	3.43	0.001	1.033028	1.126676
Asian	1.038628	0.057885	0.68	0.496	0.931153	1.158509
OthRace	1.110446	0.050711	2.29	0.022	1.015372	1.214422
RACE_MISS	0.881625	0.036302	-3.06	0.002	0.813271	0.955725
Hispanic	1.02006	0.025599	0.79	0.429	0.9711	1.071488
Hispanic_M~S	1.137323	0.057988	2.52	0.012	1.029162	1.25685
dti_missing	0.865428	0.049188	-2.54	0.011	0.774197	0.967411
dti_20_30	0.962327	0.062634	-0.59	0.555	0.847074	1.093262
dti_30_40	0.981141	0.057857	-0.32	0.747	0.874052	1.101351
dti_40_60	1.073228	0.062249	1.22	0.223	0.957902	1.202438
dti_60	1.070367	0.068278	1.07	0.286	0.944573	1.212914
FICO_MISS	0.777267	0.021743	-9.01	0	0.735798	0.821073
FICO_300_500	1.398569	0.116284	4.03	0	1.188258	1.646102
FICO_501_550	1.266297	0.040517	7.38	0	1.189324	1.348251
FICO_551_600	1.135387	0.027642	5.22	0	1.082482	1.190878
FICO_651_700	0.823341	0.021385	-7.48	0	0.782478	0.86634
FICO_701_750	0.681234	0.024276	-10.77	0	0.635277	0.730515
FICO_751_800	0.550523	0.033014	-9.95	0	0.489474	0.619186
FICO_801_850	0.541424	0.137611	-2.41	0.016	0.328997	0.89101
OriginalLo~u	1.000778	9.67E-05	8.05	0	1.000589	1.000968
year03	1.026493	0.06018	0.45	0.656	0.915067	1.151489
year04	1.021036	0.057526	0.37	0.712	0.914289	1.140246
year05	1.075046	0.057004	1.36	0.172	0.96893	1.192784
year06	1.136319	0.058741	2.47	0.013	1.026829	1.257485
year07	1.187841	0.062768	3.26	0.001	1.070975	1.317461
year08	1.228548	0.164571	1.54	0.124	0.944863	1.597408
CurrentInt~e	0.999574	0.006418	-0.07	0.947	0.987074	1.012234
MrtGrdBC	1.001225	0.025263	0.05	0.961	0.952915	1.051985

IntTypeARM	0.98911	0.022931	-0.47	0.637	0.945173	1.03509
IntTypeOth	1.231498	0.09655	2.66	0.008	1.056085	1.436046
OptionARM	0.879207	0.030293	-3.74	0	0.821795	0.940629
OptionArm_~s	0.70041	0.047105	-5.29	0	0.613911	0.799096
InvAgency	0.998587	0.025321	-0.06	0.956	0.950171	1.04947
InvGov	1.500509	0.309424	1.97	0.049	1.001636	2.24785
InvPortfolio	0.921341	0.024799	-3.04	0.002	0.873995	0.971251
Inv_Miss	0.556266	0.199776	-1.63	0.102	0.275159	1.124557
Jumbo	0.993274	0.038177	-0.18	0.861	0.921197	1.07099
AppRtHm~0607	1.001779	0.000845	2.11	0.035	1.000124	1.003437
MrtgOrigMe~u	0.999896	0.000125	-0.83	0.405	0.99965	1.000141
Unemp	0.998327	0.004112	-0.41	0.684	0.9903	1.006418
Unemp_chg_~t	1.001032	0.000303	3.41	0.001	1.000438	1.001626
Hpi	1.000067	0.000135	0.5	0.616	0.999804	1.000331
Hpi_chg_pct	1.000233	0.001175	0.2	0.843	0.997934	1.002538
LTV	1.002843	0.000404	7.05	0	1.002052	1.003635
LTVnot80	1.075617	0.026925	2.91	0.004	1.024118	1.129705

Impact of Counseling on Redefault,
Parameter Estimates: Counseling Level

Logistic regression	Number of obs = 464424
	LR chi2(59) = 11567.15
	Prob > chi2 = 0.0000
Log likelihood = -65612.91	Pseudo R2 = 0.0810

Event	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
PRE_EC_NW_~G	0.596755	0.037943	15.73	0	0.522388	0.671122
POST_EC_NW~G	0.594918	0.042289	14.07	0	0.512033	0.677803
Post_c~1_mod	-0.85857	0.049263	-17.43	0	-0.95512	-0.76201
Post_c~2_mod	-0.89031	0.054657	-16.29	0	-0.99743	-0.78318
Post_c~3_mod	-0.90235	0.049261	-18.32	0	-0.9989	-0.8058
mod_post_~09	-0.86943	0.029863	-29.11	0	-0.92797	-0.8109
P~1_mod_po~9	0.101063	0.047465	2.13	0.033	0.008033	0.194092
P~2_mod_po~9	0.240471	0.055283	4.35	0	0.132118	0.348824
P~3_mod_po~9	0.191815	0.048245	3.98	0	0.097256	0.286374
MoPmt_redu~u	-0.22384	0.014632	-15.3	0	-0.25252	-0.19516
Months_mod	0.344319	0.005593	61.56	0	0.333357	0.355281
Months_mod~q	-0.01488	0.000289	-51.47	0	-0.01545	-0.01431
PrincipalB~d	-0.21153	0.106483	-1.99	0.047	-0.42023	-0.00283
incK	0.000311	0.000168	1.85	0.064	-1.8E-05	0.00064
Black	0.071981	0.02227	3.23	0.001	0.028331	0.11563
Asian	0.036683	0.055752	0.66	0.511	-0.07259	0.145954
OthRace	0.106175	0.045704	2.32	0.02	0.016598	0.195753
RACE_MISS	-0.12355	0.04121	-3	0.003	-0.20432	-0.04278
Hispanic	0.017109	0.025154	0.68	0.496	-0.03219	0.066411
Hispanic_M~S	0.12755	0.050998	2.5	0.012	0.027597	0.227504
dti_missing	-0.1453	0.056846	-2.56	0.011	-0.25672	-0.03389
dti_20_30	-0.04006	0.065095	-0.62	0.538	-0.16764	0.087525
dti_30_40	-0.02182	0.058979	-0.37	0.711	-0.13742	0.093778
dti_40_60	0.068675	0.058008	1.18	0.236	-0.04502	0.182368
dti_60	0.066855	0.063791	1.05	0.295	-0.05817	0.191883
FICO_MISS	-0.25143	0.027977	-8.99	0	-0.30626	-0.19659
FICO_300_500	0.332601	0.08314	4	0	0.169649	0.495552
FICO_501_550	0.236124	0.031996	7.38	0	0.173412	0.298836
FICO_551_600	0.127732	0.024353	5.25	0	0.080002	0.175463
FICO_651_700	-0.19319	0.025976	-7.44	0	-0.2441	-0.14227
FICO_701_750	-0.38245	0.035641	-10.73	0	-0.4523	-0.31259
FICO_751_800	-0.59377	0.059983	-9.9	0	-0.71134	-0.47621
FICO_801_850	-0.61485	0.254177	-2.42	0.016	-1.11302	-0.11667
OriginalLo~u	0.000782	9.66E-05	8.09	0	0.000592	0.000971
year03	0.02401	0.058631	0.41	0.682	-0.0909	0.138924
year04	0.020038	0.056342	0.36	0.722	-0.09039	0.130466
year05	0.071476	0.053026	1.35	0.178	-0.03245	0.175406
year06	0.126056	0.051697	2.44	0.015	0.024732	0.227379

year07	0.171522	0.052844	3.25	0.001	0.067951	0.275093
year08	0.210285	0.133971	1.57	0.117	-0.05229	0.472863
CurrentInt~e	-0.00046	0.006424	-0.07	0.943	-0.01305	0.01213
MrtGrdBC	0.001273	0.025233	0.05	0.96	-0.04818	0.050729
IntTypeARM	-0.01121	0.023186	-0.48	0.629	-0.05666	0.034232
IntTypeOth	0.20774	0.078416	2.65	0.008	0.054048	0.361432
OptionARM	-0.12786	0.034478	-3.71	0	-0.19543	-0.06029
OptionArm_~s	-0.35584	0.067264	-5.29	0	-0.48767	-0.22401
InvAgency	0.001909	0.025392	0.08	0.94	-0.04786	0.051676
InvGov	0.408294	0.206236	1.98	0.048	0.00408	0.812509
InvPortfolio	-0.0809	0.026923	-3	0.003	-0.13367	-0.02813
Inv_Miss	-0.57671	0.359302	-1.61	0.108	-1.28093	0.127506
Jumbo	-0.00666	0.038438	-0.17	0.863	-0.08199	0.068681
AppRtHm~0607	0.00183	0.000844	2.17	0.03	0.000175	0.003484
MrtgOrigMe~u	-0.0001	0.000125	-0.83	0.408	-0.00035	0.000142
Unemp	-0.00152	0.00412	-0.37	0.712	-0.0096	0.006554
Unemp_chg_~t	0.001029	0.000303	3.4	0.001	0.000435	0.001623
Hpi	6.79E-05	0.000135	0.5	0.614	-0.0002	0.000332
Hpi_chg_pct	0.000118	0.001176	0.1	0.92	-0.00219	0.002422
LTV	0.002833	0.000403	7.03	0	0.002043	0.003623
LTVnot80	0.073327	0.025035	2.93	0.003	0.02426	0.122394
_cons	-4.51115	0.133192	-33.87	0	-4.7722	-4.2501

Impact of Counseling on Redefault,

Odds Ratios: Counseling Levels

Logistic regression	Number of obs = 464424
	LR chi2(59) = 11567.15
	Prob > chi2 = 0.0000
Log likelihood = -65612.91	Pseudo R2 = 0.0810

Event	Odds Ratio	Std. Err.	z	P>|z|	[95% Conf.	Interval]
PRE_EC_NW_~G	1.816216	0.068913	15.73	0	1.686049	1.956432
POST_EC_NW~G	1.812882	0.076665	14.07	0	1.66868	1.969545
Post_c~1_mod	0.423769	0.020876	-17.43	0	0.384766	0.466726
Post_c~2_mod	0.410531	0.022438	-16.29	0	0.368826	0.456951
Post_c~3_mod	0.405616	0.019981	-18.32	0	0.368285	0.446732
mod_post_~09	0.419189	0.012518	-29.11	0	0.395357	0.444456
P~1_mod_po~9	1.106346	0.052512	2.13	0.033	1.008066	1.214208
P~2_mod_po~9	1.271848	0.070312	4.35	0	1.141243	1.417399
P~3_mod_po~9	1.211446	0.058447	3.98	0	1.102142	1.33159
MoPmt_redu~u	0.79944	0.011698	-15.3	0	0.776839	0.822699
Months_mod	1.411028	0.007892	61.56	0	1.395646	1.426581
Months_mod~q	0.985229	0.000285	-51.47	0	0.984671	0.985787
PrincipalB~d	0.809345	0.086182	-1.99	0.047	0.656894	0.997178
incK	1.000311	0.000168	1.85	0.064	0.999982	1.00064
Black	1.074634	0.023933	3.23	0.001	1.028736	1.12258
Asian	1.037364	0.057835	0.66	0.511	0.929984	1.157143
OthRace	1.112017	0.050823	2.32	0.02	1.016736	1.216226
RACE_MISS	0.88378	0.036421	-3	0.003	0.815204	0.958126
Hispanic	1.017257	0.025588	0.68	0.496	0.968321	1.068666
Hispanic_M~S	1.136042	0.057936	2.5	0.012	1.027981	1.255463
dti_missing	0.864761	0.049158	-2.56	0.011	0.773586	0.966682
dti_20_30	0.960733	0.062539	-0.62	0.538	0.845657	1.091469
dti_30_40	0.978417	0.057706	-0.37	0.711	0.871608	1.098315
dti_40_60	1.071088	0.062132	1.18	0.236	0.95598	1.200056
dti_60	1.069141	0.068201	1.05	0.295	0.943488	1.211529
FICO_MISS	0.777692	0.021758	-8.99	0	0.736195	0.821527
FICO_300_500	1.39459	0.115946	4	0	1.184889	1.641404
FICO_501_550	1.266331	0.040518	7.38	0	1.189356	1.348288
FICO_551_600	1.136249	0.027671	5.25	0	1.083289	1.191798
FICO_651_700	0.824328	0.021413	-7.44	0	0.783411	0.867383
FICO_701_750	0.682191	0.024314	-10.73	0	0.636162	0.731549
FICO_751_800	0.552241	0.033125	-9.9	0	0.490988	0.621136
FICO_801_850	0.540724	0.13744	-2.42	0.016	0.328564	0.889881
OriginalLo~u	1.000782	9.66E-05	8.09	0	1.000593	1.000971
year03	1.0243	0.060055	0.41	0.682	0.913105	1.149036
year04	1.02024	0.057482	0.36	0.722	0.913574	1.139359
year05	1.074093	0.056955	1.35	0.178	0.968068	1.19173

year06	1.134345	0.058642	2.44	0.015	1.025041	1.255305
year07	1.18711	0.062731	3.25	0.001	1.070313	1.316654
year08	1.234029	0.165325	1.57	0.117	0.94905	1.604582
CurrentInt~e	0.999539	0.006422	-0.07	0.943	0.987032	1.012204
MrtGrdBC	1.001274	0.025265	0.05	0.96	0.95296	1.052038
IntTypeARM	0.988851	0.022928	-0.48	0.629	0.94492	1.034825
IntTypeOth	1.230893	0.096521	2.65	0.008	1.055535	1.435384
OptionARM	0.879977	0.03034	-3.71	0	0.822477	0.941496
OptionArm_~s	0.700585	0.047124	-5.29	0	0.614053	0.799311
InvAgency	1.001911	0.02544	0.08	0.94	0.953269	1.053035
InvGov	1.50425	0.31023	1.98	0.048	1.004088	2.253554
InvPortfolio	0.922287	0.024831	-3	0.003	0.874881	0.972262
Inv_Miss	0.561741	0.201835	-1.61	0.108	0.277778	1.135992
Jumbo	0.993366	0.038183	-0.17	0.863	0.921278	1.071094
AppRtHm~0607	1.001831	0.000846	2.17	0.03	1.000175	1.00349
MrtgOrigMe~u	0.999896	0.000125	-0.83	0.408	0.999651	1.000142
Unemp	0.99848	0.004114	-0.37	0.712	0.99045	1.006576
Unemp_chg_~t	1.001029	0.000303	3.4	0.001	1.000435	1.001624
Hpi	1.000068	0.000135	0.5	0.614	0.999804	1.000332
Hpi_chg_pct	1.000118	0.001176	0.1	0.92	0.997815	1.002425
LTV	1.002837	0.000404	7.03	0	1.002045	1.00363
LTVnot80	1.076082	0.026939	2.93	0.003	1.024557	1.1302

APPENDIX O – NON-MODIFICATION CURE REDEFAULT MODEL: LIKELIHOOD OF REDEFAULT

Non-Modification Cure Likelihood of Redefault, Parameter Estimates: Entered Counseling

Logistic regression	Number of obs =	296799
	LR chi2(53) =	8404.01
	Prob > chi2 =	0.0000
Log likelihood = -59768.062	Pseudo R2 =	0.0657

Event	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
cure_post~09	-0.99044	0.0255	-38.84	0	-1.04042	-0.94046
Post_couns~e	-0.60571	0.033296	-18.19	0	-0.67097	-0.54045
ie_term	0.577383	0.038173	15.13	0	0.502566	0.6522
PRE_EC_NW_~G	0.479841	0.029492	16.27	0	0.422037	0.537645
POST_EC_NW~G	0.295575	0.030487	9.7	0	0.235821	0.355328
Months_cure	0.332265	0.00559	59.44	0	0.321309	0.343221
Months_cur~q	-0.01593	0.000292	-54.64	0	-0.0165	-0.01535
incK	-0.00013	0.000163	-0.79	0.431	-0.00045	0.000192
Black	0.001579	0.023689	0.07	0.947	-0.04485	0.04801
Asian	-0.10758	0.059999	-1.79	0.073	-0.22518	0.010016
OthRace	0.053221	0.048096	1.11	0.268	-0.04105	0.147487
RACE_MISS	0.017975	0.034594	0.52	0.603	-0.04983	0.085778
Hispanic	-0.00414	0.027372	-0.15	0.88	-0.05779	0.049504
Hispanic_M~S	0.065167	0.043082	1.51	0.13	-0.01927	0.149607
dti_missing	-0.03508	0.048296	-0.73	0.468	-0.12974	0.059575
dti_20_30	0.096426	0.054639	1.76	0.078	-0.01067	0.203517
dti_30_40	0.131029	0.049616	2.64	0.008	0.033784	0.228273
dti_40_60	0.07757	0.049066	1.58	0.114	-0.0186	0.173737
dti_60	-0.0864	0.056017	-1.54	0.123	-0.19619	0.023395
FICO_MISS	-0.08102	0.027241	-2.97	0.003	-0.13441	-0.02763
FICO_300_500	0.085011	0.090044	0.94	0.345	-0.09147	0.261493
FICO_501_550	0.071521	0.035006	2.04	0.041	0.002911	0.140131
FICO_551_600	0.057888	0.026136	2.21	0.027	0.006662	0.109114
FICO_651_700	-0.05589	0.025181	-2.22	0.026	-0.10525	-0.00654
FICO_701_750	-0.17265	0.033519	-5.15	0	-0.23835	-0.10696
FICO_751_800	-0.30453	0.054415	-5.6	0	-0.41118	-0.19788
FICO_801_850	-0.37995	0.224567	-1.69	0.091	-0.82009	0.060197
OriginalLo~u	0.000458	8.05E-05	5.68	0	0.0003	0.000616
year03	0.176308	0.052051	3.39	0.001	0.074291	0.278325
year04	0.228967	0.053321	4.29	0	0.124461	0.333473
year05	0.310316	0.050988	6.09	0	0.210382	0.41025
year06	0.42793	0.04999	8.56	0	0.329951	0.525909
year07	0.536401	0.051319	10.45	0	0.435818	0.636984
year08	0.356044	0.140848	2.53	0.011	0.079988	0.632101
CurrentInt~e	0.037031	0.007539	4.91	0	0.022255	0.051806
MrtGrdBC	-0.01259	0.028223	-0.45	0.656	-0.0679	0.042728
IntTypeARM	-0.03078	0.023191	-1.33	0.184	-0.07623	0.014674
IntTypeOth	0.076789	0.089139	0.86	0.389	-0.09792	0.251498
OptionARM	-0.14482	0.03937	-3.68	0	-0.22198	-0.06765

OptionArm_~s	-0.3333	0.058943	-5.65	0	-0.44883	-0.21778
InvAgency	-0.12571	0.024969	-5.03	0	-0.17465	-0.07677
InvGov	-0.12165	0.136524	-0.89	0.373	-0.38923	0.145929
InvPortfolio	-0.09493	0.032192	-2.95	0.003	-0.15802	-0.03183
Inv_Miss	-0.20571	0.218099	-0.94	0.346	-0.63317	0.22176
Jumbo	0.014027	0.03954	0.35	0.723	-0.06347	0.091523
AppRtHm~0607	-0.00111	0.000845	-1.32	0.188	-0.00277	0.000544
MrtgOrigMe~u	-0.00013	0.000117	-1.08	0.279	-0.00036	0.000103
Unemp	0.00754	0.004328	1.74	0.082	-0.00094	0.016023
Unemp_chg_~t	-0.00026	0.00031	-0.83	0.404	-0.00087	0.000349
Hpi	9.69E-05	0.000119	0.82	0.415	-0.00014	0.00033
Hpi_chg_pct	-0.00377	0.001231	-3.06	0.002	-0.00618	-0.00135
LTV	0.002374	0.000438	5.43	0	0.001517	0.003232
LTVnot80	-0.01853	0.024533	-0.76	0.45	-0.06662	0.029554
_cons	-4.42504	0.132223	-33.47	0	-4.6842	-4.16589

**Non-Modification Cure Likelihood of Redefault,
Odds Ratios: Entered Counseling**

Logistic regression	Number of obs = 296799
	LR chi2(53) = 8404.01
	Prob > chi2 = 0.0000
Log likelihood = -59768.062	Pseudo R2 = 0.0657

Event	Odds Ratio	Std. Err.	z	P>|z|	[95% Conf.	Interval]
cure_post~09	0.371412	0.009471	-38.84	0	0.353305	0.390447
Post_couns~e	0.545689	0.018169	-18.19	0	0.511215	0.582488
ie_term	1.781371	0.068	15.13	0	1.652957	1.91976
PRE_EC_NW_~G	1.615818	0.047654	16.27	0	1.525065	1.711971
POST_EC_NW~G	1.343898	0.040971	9.7	0	1.265948	1.426648
Months_cure	1.394122	0.007793	59.44	0	1.378931	1.40948
Months_cur~q	0.9842	0.000287	-54.64	0	0.983638	0.984763
incK	0.999872	0.000163	-0.79	0.431	0.999552	1.000192
Black	1.00158	0.023727	0.07	0.947	0.95614	1.049181
Asian	0.898005	0.053879	-1.79	0.073	0.798376	1.010066
OthRace	1.054663	0.050725	1.11	0.268	0.959785	1.158918
RACE_MISS	1.018138	0.035222	0.52	0.603	0.951393	1.089565
Hispanic	0.995864	0.027259	-0.15	0.88	0.943845	1.05075
Hispanic_M~S	1.067338	0.045983	1.51	0.13	0.980912	1.161378
dti_missing	0.965525	0.046631	-0.73	0.468	0.878322	1.061385
dti_20_30	1.101228	0.06017	1.76	0.078	0.989391	1.225706
dti_30_40	1.140001	0.056562	2.64	0.008	1.034361	1.256429
dti_40_60	1.080658	0.053023	1.58	0.114	0.981575	1.189743
dti_60	0.917231	0.05138	-1.54	0.123	0.821859	1.023671
FICO_MISS	0.922176	0.025121	-2.97	0.003	0.874232	0.972749
FICO_300_500	1.088729	0.098033	0.94	0.345	0.912588	1.298868
FICO_501_550	1.074141	0.037601	2.04	0.041	1.002916	1.150424
FICO_551_600	1.059596	0.027694	2.21	0.027	1.006684	1.11529
FICO_651_700	0.945641	0.023813	-2.22	0.026	0.900103	0.993484
FICO_701_750	0.841429	0.028204	-5.15	0	0.787926	0.898564
FICO_751_800	0.737472	0.04013	-5.6	0	0.662868	0.820472
FICO_801_850	0.683898	0.153581	-1.69	0.091	0.440392	1.062046
OriginalLo~u	1.000458	8.06E-05	5.68	0	1.0003	1.000616
year03	1.192805	0.062086	3.39	0.001	1.07712	1.320915
year04	1.257301	0.06704	4.29	0	1.132538	1.395808
year05	1.363856	0.06954	6.09	0	1.23415	1.507194
year06	1.534079	0.076689	8.56	0	1.3909	1.691996
year07	1.709842	0.087747	10.45	0	1.546228	1.890769
year08	1.427671	0.201084	2.53	0.011	1.083274	1.881559
CurrentInt~e	1.037725	0.007823	4.91	0	1.022505	1.053171
MrtGrdBC	0.987491	0.02787	-0.45	0.656	0.93435	1.043654
IntTypeARM	0.969689	0.022488	-1.33	0.184	0.926599	1.014782
IntTypeOth	1.079814	0.096254	0.86	0.389	0.906721	1.285951

OptionARM	0.865181	0.034062	-3.68	0	0.800932	0.934585
OptionArm_~s	0.716554	0.042236	-5.65	0	0.638377	0.804306
InvAgency	0.881869	0.022019	-5.03	0	0.839752	0.926099
InvGov	0.885456	0.120886	-0.89	0.373	0.677576	1.157114
InvPortfolio	0.909439	0.029277	-2.95	0.003	0.85383	0.96867
Inv_Miss	0.814073	0.177548	-0.94	0.346	0.530906	1.248272
Jumbo	1.014126	0.040098	0.35	0.723	0.938503	1.095842
AppRtHm~0607	0.998889	0.000844	-1.32	0.188	0.997236	1.000545
MrtgOrigMe~u	0.999874	0.000117	-1.08	0.279	0.999645	1.000103
Unemp	1.007568	0.004361	1.74	0.082	0.999057	1.016153
Unemp_chg_~t	0.999741	0.00031	-0.83	0.404	0.999133	1.000349
Hpi	1.000097	0.000119	0.82	0.415	0.999864	1.00033
Hpi_chg_pct	0.996239	0.001227	-3.06	0.002	0.993838	0.998646
LTV	1.002377	0.000439	5.43	0	1.001518	1.003237
LTVnot80	0.98164	0.024083	-0.76	0.45	0.935555	1.029995

Non-Modification Cure Likelihood of Redefault,
Parameter Estimates: Counseling Levels

Logistic regression	Number of obs = 296799
	LR chi2(57) = 8412.07
	Prob > chi2 = 0.0000
Log likelihood = -59764.035	Pseudo R2 = 0.0658

Event	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
PRE_EC_NW_~G	0.477644	0.029514	16.18	0	0.419798	0.53549
POST_EC_NW~G	0.293867	0.030499	9.64	0	0.23409	0.353643
Post_~1_cure	-0.58824	0.039019	-15.08	0	-0.66472	-0.51177
Post_~2_cure	-0.61531	0.050212	-12.25	0	-0.71373	-0.5169
Post_~3_cure	-0.62627	0.045132	-13.88	0	-0.71473	-0.53781
cure_post~09	-0.98908	0.025503	-38.78	0	-1.03907	-0.9391
P~1_cure_p~9	0.620615	0.048329	12.84	0	0.525892	0.715337
P~2_cure_p~9	0.532472	0.068741	7.75	0	0.397743	0.667201
P~3_cure_p~9	0.536525	0.059632	9	0	0.419648	0.653402
Months_cure	0.332442	0.00559	59.47	0	0.321485	0.343398
Months_cur~q	-0.01593	0.000292	-54.65	0	-0.0165	-0.01536
incK	-0.00014	0.000164	-0.83	0.406	-0.00046	0.000185
Black	0.006862	0.02378	0.29	0.773	-0.03975	0.053469
Asian	-0.10455	0.060027	-1.74	0.082	-0.2222	0.013103
OthRace	0.051816	0.048111	1.08	0.281	-0.04248	0.146111
RACE_MISS	0.015259	0.034622	0.44	0.659	-0.0526	0.083117
Hispanic	-0.00182	0.027399	-0.07	0.947	-0.05553	0.051876
Hispanic_M~S	0.064421	0.043084	1.5	0.135	-0.02002	0.148864
dti_missing	-0.03492	0.048298	-0.72	0.47	-0.12958	0.059742
dti_20_30	0.096339	0.054641	1.76	0.078	-0.01075	0.203433
dti_30_40	0.131925	0.049618	2.66	0.008	0.034676	0.229174
dti_40_60	0.07749	0.049068	1.58	0.114	-0.01868	0.17366
dti_60	-0.08584	0.056028	-1.53	0.126	-0.19565	0.023976
FICO_MISS	-0.08049	0.027244	-2.95	0.003	-0.13389	-0.0271
FICO_300_500	0.085212	0.090061	0.95	0.344	-0.0913	0.26173
FICO_501_550	0.070907	0.035008	2.03	0.043	0.002293	0.139522
FICO_551_600	0.058577	0.026139	2.24	0.025	0.007345	0.109809
FICO_651_700	-0.05576	0.025183	-2.21	0.027	-0.10511	-0.0064
FICO_701_750	-0.17274	0.033521	-5.15	0	-0.23845	-0.10704
FICO_751_800	-0.30236	0.054421	-5.56	0	-0.40902	-0.1957
FICO_801_850	-0.38671	0.224602	-1.72	0.085	-0.82692	0.053506
OriginalLo~u	0.000459	8.06E-05	5.7	0	0.000301	0.000617
year03	0.176851	0.052055	3.4	0.001	0.074826	0.278876
year04	0.227961	0.053326	4.27	0	0.123444	0.332477
year05	0.310217	0.050988	6.08	0	0.210282	0.410152
year06	0.428206	0.049995	8.56	0	0.330217	0.526195
year07	0.536714	0.051325	10.46	0	0.436118	0.63731
year08	0.356917	0.140853	2.53	0.011	0.08085	0.632985
CurrentInt~e	0.037072	0.007539	4.92	0	0.022296	0.051847

MrtGrdBC	-0.01299	0.028232	-0.46	0.645	-0.06833	0.04234
IntTypeARM	-0.02993	0.023192	-1.29	0.197	-0.07538	0.015529
IntTypeOth	0.076515	0.089143	0.86	0.391	-0.0982	0.251232
OptionARM	-0.14449	0.039375	-3.67	0	-0.22166	-0.06731
OptionArm_~s	-0.33266	0.058956	-5.64	0	-0.44821	-0.21711
InvAgency	-0.1269	0.024971	-5.08	0	-0.17584	-0.07796
InvGov	-0.12299	0.136524	-0.9	0.368	-0.39057	0.144589
InvPortfolio	-0.09501	0.032194	-2.95	0.003	-0.1581	-0.03191
Inv_Miss	-0.20518	0.218089	-0.94	0.347	-0.63263	0.222266
Jumbo	0.014792	0.039541	0.37	0.708	-0.06271	0.092291
AppRtHm~0607	-0.00113	0.000846	-1.34	0.181	-0.00279	0.000527
MrtgOrigMe~u	-0.00013	0.000117	-1.11	0.267	-0.00036	9.95E-05
Unemp	0.007651	0.00433	1.77	0.077	-0.00084	0.016136
Unemp_chg_~t	-0.00028	0.000311	-0.9	0.368	-0.00089	0.000329
Hpi	0.000094	0.000119	0.79	0.429	-0.00014	0.000327
Hpi_chg_pct	-0.00364	0.001232	-2.96	0.003	-0.00606	-0.00123
LTV	0.002387	0.000437	5.46	0	0.00153	0.003243
LTVnot80	-0.01905	0.024538	-0.78	0.437	-0.06715	0.029042
_cons	-4.42345	0.13225	-33.45	0	-4.68266	-4.16425

Non-Modification Cure Likelihood of Redefault, Odds Ratios: Counseling Levels

Logistic regression	Number of obs = 296799
	LR chi2(57) = 8412.07
	Prob > chi2 = 0.0000
Log likelihood = -59764.035	Pseudo R2 = 0.0658

Event	Odds Ratio	Std. Err.	z	P>|z|	[95% Conf.	Interval]
PRE_EC_NW_~G	1.612271	0.047584	16.18	0	1.521654	1.708284
POST_EC_NW~G	1.341605	0.040917	9.64	0	1.263758	1.424247
Post_~1_cure	0.555302	0.021667	-15.08	0	0.514419	0.599435
Post_~2_cure	0.540472	0.027138	-12.25	0	0.489815	0.596367
Post_~3_cure	0.534583	0.024127	-13.88	0	0.489326	0.584024
cure_post~09	0.371917	0.009485	-38.78	0	0.353784	0.39098
P~1_cure_p~9	1.860071	0.089895	12.84	0	1.691967	2.044876
P~2_cure_p~9	1.703137	0.117075	7.75	0	1.488461	1.948775
P~3_cure_p~9	1.710054	0.101974	9	0	1.521426	1.922068
Months_cure	1.394369	0.007795	59.47	0	1.379174	1.40973
Months_cur~q	0.984196	0.000287	-54.65	0	0.983634	0.984759
incK	0.999864	0.000164	-0.83	0.406	0.999544	1.000185
Black	1.006885	0.023944	0.29	0.773	0.961033	1.054925
Asian	0.900731	0.054069	-1.74	0.082	0.800755	1.013189
OthRace	1.053182	0.050669	1.08	0.281	0.958411	1.157324
RACE_MISS	1.015376	0.035155	0.44	0.659	0.94876	1.086669
Hispanic	0.998177	0.027349	-0.07	0.947	0.945988	1.053245
Hispanic_M~S	1.066542	0.045951	1.5	0.135	0.980178	1.160515
dti_missing	0.965682	0.046641	-0.72	0.47	0.878462	1.061563
dti_20_30	1.101132	0.060167	1.76	0.078	0.989303	1.225603
dti_30_40	1.141023	0.056615	2.66	0.008	1.035284	1.257561
dti_40_60	1.080571	0.053021	1.58	0.114	0.981492	1.189651
dti_60	0.917744	0.051419	-1.53	0.126	0.8223	1.024266
FICO_MISS	0.92266	0.025137	-2.95	0.003	0.874684	0.973268
FICO_300_500	1.088948	0.098072	0.95	0.344	0.91274	1.299175
FICO_501_550	1.073482	0.037581	2.03	0.043	1.002295	1.149724
FICO_551_600	1.060327	0.027716	2.24	0.025	1.007372	1.116064
FICO_651_700	0.94577	0.023817	-2.21	0.027	0.900222	0.993623
FICO_701_750	0.841353	0.028203	-5.15	0	0.787852	0.898487
FICO_751_800	0.739071	0.040221	-5.56	0	0.664298	0.82226
FICO_801_850	0.679291	0.15257	-1.72	0.085	0.437396	1.054964
OriginalLo~u	1.000459	8.06E-05	5.7	0	1.000301	1.000617
year03	1.193454	0.062125	3.4	0.001	1.077697	1.321644
year04	1.256036	0.066979	4.27	0	1.131387	1.394418
year05	1.363721	0.069534	6.08	0	1.234026	1.507047
year06	1.534502	0.076718	8.56	0	1.39127	1.69248
year07	1.710377	0.087786	10.46	0	1.546691	1.891386
year08	1.428918	0.201268	2.53	0.011	1.084208	1.883223

CurrentInt~e	1.037767	0.007824	4.92	0	1.022546	1.053215
MrtGrdBC	0.98709	0.027868	-0.46	0.645	0.933954	1.043249
IntTypeARM	0.970518	0.022508	-1.29	0.197	0.92739	1.01565
IntTypeOth	1.079518	0.096232	0.86	0.391	0.906465	1.285608
OptionARM	0.865466	0.034078	-3.67	0	0.801187	0.934903
OptionArm_~s	0.717014	0.042273	-5.64	0	0.638769	0.804843
InvAgency	0.880821	0.021995	-5.08	0	0.838749	0.925004
InvGov	0.88427	0.120724	-0.9	0.368	0.676668	1.155565
InvPortfolio	0.909368	0.029276	-2.95	0.003	0.853761	0.968597
Inv_Miss	0.8145	0.177634	-0.94	0.347	0.531194	1.248903
Jumbo	1.014902	0.04013	0.37	0.708	0.939219	1.096684
AppRtHm~0607	0.99887	0.000845	-1.34	0.181	0.997215	1.000527
MrtgOrigMe~u	0.99987	0.000117	-1.11	0.267	0.999641	1.000099
Unemp	1.00768	0.004363	1.77	0.077	0.999165	1.016267
Unemp_chg_~t	0.999721	0.00031	-0.9	0.368	0.999113	1.000329
Hpi	1.000094	0.000119	0.79	0.429	0.999861	1.000327
Hpi_chg_pct	0.996366	0.001228	-2.96	0.003	0.993963	0.998775
LTV	1.002389	0.000438	5.46	0	1.001531	1.003249
LTVnot80	0.981128	0.024075	-0.78	0.437	0.935058	1.029468

APPENDIX P – LIKELIHOOD OF MODIFICATION CURE MODEL

Likelihood of Modification Cure Parameter Estimates: Entered Counseling

Logistic regression	Number of obs = 1973686
	LR chi2(57) = 12625.76
	Prob > chi2 = 0.0000
Log likelihood = -120074.38	Pseudo R2 = 0.0499

Event	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
PRE_EC_NW_~G	-0.09697	0.02688	-3.61	0	-0.14966	-0.04429
EC_BEF_MAR09	0.467714	0.019626	23.83	0	0.429248	0.50618
EC_AFT_MAR09	0.582179	0.026731	21.78	0	0.529787	0.63457
AFT_MAR09	0.634999	0.023361	27.18	0	0.589212	0.680785
Months_for~e	0.052453	0.002518	20.83	0	0.047518	0.057389
Months_for~q	-0.00167	8.31E-05	-20.03	0	-0.00183	-0.0015
Delinqintk1	-0.23506	0.024916	-9.43	0	-0.2839	-0.18623
Delinqintk2	-0.34226	0.023638	-14.48	0	-0.38859	-0.29593
Delinqintk3	-0.51068	0.02476	-20.63	0	-0.55921	-0.46215
Delinqintk4	-1.08506	0.022273	-48.72	0	-1.12871	-1.0414
Black	0.204588	0.018246	11.21	0	0.168827	0.240349
Asian	-0.11437	0.045552	-2.51	0.012	-0.20365	-0.02509
OthRace	-0.0907	0.038011	-2.39	0.017	-0.1652	-0.0162
RACE_MISS	-0.00778	0.032972	-0.24	0.813	-0.07241	0.056843
Hispanic	0.014786	0.020419	0.72	0.469	-0.02524	0.054807
Hispanic_M~S	-0.13356	0.041652	-3.21	0.001	-0.21519	-0.05192
year03	-0.14683	0.046853	-3.13	0.002	-0.23866	-0.055
year04	-0.10918	0.045347	-2.41	0.016	-0.19806	-0.02031
year05	-0.09262	0.042799	-2.16	0.03	-0.17651	-0.00874
year06	0.039084	0.041855	0.93	0.35	-0.04295	0.121119
year07	-0.01936	0.042816	-0.45	0.651	-0.10328	0.064559
year08	-0.2351	0.109734	-2.14	0.032	-0.45017	-0.02002
FICO_300_500	0.216151	0.070834	3.05	0.002	0.077319	0.354983
FICO_501_550	0.22788	0.027497	8.29	0	0.173987	0.281772
FICO_551_600	0.201529	0.020449	9.86	0	0.161449	0.241609
FICO_651_700	-0.3657	0.021327	-17.15	0	-0.4075	-0.3239
FICO_701_750	-0.63415	0.028462	-22.28	0	-0.68993	-0.57837
FICO_751_800	-0.7727	0.045311	-17.05	0	-0.86151	-0.68389
FICO_801_850	-1.04687	0.205406	-5.1	0	-1.44945	-0.64428
FICO_MISS	0.05805	0.021242	2.73	0.006	0.016418	0.099683
DTI_0_20	0.014344	0.046282	0.31	0.757	-0.07637	0.105054
DTI_20_30	0.099065	0.030759	3.22	0.001	0.038779	0.159352
DTI_40_50	0.0233	0.023637	0.99	0.324	-0.02303	0.069627
DTI_50_60	0.277128	0.027698	10.01	0	0.22284	0.331415
DTI_GT_60	-0.04097	0.053254	-0.77	0.442	-0.14534	0.06341
DTI_MISS	0.364058	0.020661	17.62	0	0.323563	0.404554
CurrentInt~e	-0.13173	0.005913	-22.28	0	-0.14332	-0.12014
MrtGrdBC	0.323143	0.020533	15.74	0	0.282899	0.363386

IntTypeARM	-0.14997	0.018538	-8.09	0	-0.1863	-0.11364
IntTypeOth	-0.26538	0.071494	-3.71	0	-0.4055	-0.12525
OptionARM	0.254834	0.028223	9.03	0	0.199517	0.31015
OptionARM_~S	0.105259	0.049053	2.15	0.032	0.009117	0.201401
InvAgency	-0.03481	0.020271	-1.72	0.086	-0.07454	0.004921
InvGov	-0.8176	0.171256	-4.77	0	-1.15326	-0.48194
InvPortfolio	0.487046	0.021971	22.17	0	0.443983	0.530109
Inv_MISS	-1.55694	0.278813	-5.58	0	-2.10341	-1.01048
Jumbo	-0.10578	0.03174	-3.33	0.001	-0.16799	-0.04357
AppRtHm~0607	0.001785	0.000693	2.58	0.01	0.000428	0.003143
MrtgOrigMe~u	0.000338	9.89E-05	3.41	0.001	0.000144	0.000531
Unemp	-0.01588	0.003504	-4.53	0	-0.02275	-0.00901
Unemp_chg_~t	-0.00155	0.000253	-6.15	0	-0.00205	-0.00106
Hpi	-9.6E-05	0.000107	-0.9	0.37	-0.00031	0.000114
Hpi_chg_pct	0.010954	0.001013	10.81	0	0.008968	0.01294
LTV	0.002076	0.000272	7.64	0	0.001543	0.002609
LTVnot80	0.067021	0.020049	3.34	0.001	0.027724	0.106317
OriginalLo~u	-0.00052	0.000076	-6.82	0	-0.00067	-0.00037
incK	0.000141	0.000137	1.03	0.305	-0.00013	0.000409
_cons	-3.89405	0.100946	-38.58	0	-4.0919	-3.6962

Likelihood of Modification Cure Odds Ratios: Entered Counseling

Logistic regression	Number of obs = 1973686
	LR chi2(57) = 12625.76
	Prob > chi2 = 0.0000
Log likelihood = -120074.38	Pseudo R2 = 0.0499

Event	Odds Ratio	Std. Err.	z	P>|z|	[95% Conf.	Interval]
PRE_EC_NW_~G	0.90758	0.024396	-3.61	0	0.861002	0.956677
EC_BEF_MAR09	1.59634	0.03133	23.83	0	1.536102	1.658941
EC_AFT_MAR09	1.789934	0.047847	21.78	0	1.69857	1.886211
AFT_MAR09	1.887019	0.044083	27.18	0	1.802567	1.975428
Months_for~e	1.053853	0.002654	20.83	0	1.048665	1.059068
Months_for~q	0.998336	0.000083	-20.03	0	0.998173	0.998498
Delinqintk1	0.790521	0.019697	-9.43	0	0.752844	0.830084
Delinqintk2	0.710163	0.016787	-14.48	0	0.678012	0.743839
Delinqintk3	0.600085	0.014858	-20.63	0	0.571659	0.629925
Delinqintk4	0.337883	0.007526	-48.72	0	0.32345	0.35296
Black	1.22702	0.022388	11.21	0	1.183916	1.271693
Asian	0.891929	0.040629	-2.51	0.012	0.815748	0.975224
OthRace	0.913294	0.034715	-2.39	0.017	0.847727	0.983933
RACE_MISS	0.992249	0.032717	-0.24	0.813	0.930154	1.058489
Hispanic	1.014895	0.020723	0.72	0.469	0.97508	1.056336
Hispanic_M~S	0.874977	0.036445	-3.21	0.001	0.806384	0.949404
year03	0.86344	0.040455	-3.13	0.002	0.787682	0.946484
year04	0.896566	0.040657	-2.41	0.016	0.820319	0.9799
year05	0.911538	0.039013	-2.16	0.03	0.838193	0.991301
year06	1.039858	0.043524	0.93	0.35	0.957959	1.12876
year07	0.980828	0.041995	-0.45	0.651	0.901878	1.066689
year08	0.790493	0.086744	-2.14	0.032	0.637518	0.980174
FICO_300_500	1.24129	0.087926	3.05	0.002	1.080386	1.426156
FICO_501_550	1.255934	0.034534	8.29	0	1.19004	1.325477
FICO_551_600	1.223272	0.025015	9.86	0	1.175213	1.273296
FICO_651_700	0.69371	0.014795	-17.15	0	0.66531	0.723322
FICO_701_750	0.530387	0.015096	-22.28	0	0.50161	0.560815
FICO_751_800	0.461764	0.020923	-17.05	0	0.422524	0.504649
FICO_801_850	0.351037	0.072105	-5.1	0	0.234699	0.525042
FICO_MISS	1.059768	0.022511	2.73	0.006	1.016553	1.10482
DTI_0_20	1.014447	0.04695	0.31	0.757	0.926477	1.11077
DTI_20_30	1.104138	0.033962	3.22	0.001	1.03954	1.17275
DTI_40_50	1.023573	0.024194	0.99	0.324	0.977235	1.072108
DTI_50_60	1.319335	0.036543	10.01	0	1.249621	1.392938
DTI_GT_60	0.959862	0.051116	-0.77	0.442	0.864727	1.065463
DTI_MISS	1.439158	0.029735	17.62	0	1.382043	1.498633
CurrentInt~e	0.87658	0.005183	-22.28	0	0.86648	0.886799
MrtGrdBC	1.381463	0.028365	15.74	0	1.326972	1.438191
IntTypeARM	0.860733	0.015956	-8.09	0	0.830022	0.892581

IntTypeOth	0.766917	0.05483	-3.71	0	0.666642	0.882275
OptionARM	1.290247	0.036415	9.03	0	1.220813	1.363629
OptionARM_~S	1.110998	0.054498	2.15	0.032	1.009159	1.223115
InvAgency	0.96579	0.019577	-1.72	0.086	0.928172	1.004933
InvGov	0.44149	0.075608	-4.77	0	0.315608	0.617581
InvPortfolio	1.627502	0.035758	22.17	0	1.558904	1.699118
Inv_MISS	0.210779	0.058768	-5.58	0	0.12204	0.364044
Jumbo	0.899626	0.028554	-3.33	0.001	0.845366	0.957369
AppRtHm~0607	1.001787	0.000694	2.58	0.01	1.000428	1.003147
MrtgOrigMe~u	1.000338	9.89E-05	3.41	0.001	1.000144	1.000532
Unemp	0.984244	0.003448	-4.53	0	0.977508	0.991026
Unemp_chg_~t	0.998447	0.000253	-6.15	0	0.997952	0.998942
Hpi	0.999904	0.000107	-0.9	0.37	0.999695	1.000114
Hpi_chg_pct	1.011014	0.001024	10.81	0	1.009009	1.013024
LTV	1.002078	0.000272	7.64	0	1.001545	1.002612
LTVnot80	1.069317	0.021439	3.34	0.001	1.028112	1.112174
OriginalLo~u	0.999482	7.59E-05	-6.82	0	0.999333	0.999631
incK	1.000141	0.000137	1.03	0.305	0.999872	1.000409

Likelihood of Modification Cure Parameter Estimates: Counseling Levels

Logistic regression	Number of obs = 1973686
	LR chi2(61) = 13165.77
	Prob > chi2 = 0.0000
Log likelihood = -119804.38	Pseudo R2 = 0.0521

Event	**Coef.**	**Std. Err.**	**z**	**P>|z|**	**[95% Conf.**	**Interval]**
PRE_EC_NW_~G	-0.06353	0.026927	-2.36	0.018	-0.1163	-0.01075
~1_BEF_MAR09	0.240084	0.022813	10.52	0	0.195372	0.284796
~1_AFT_MAR09	0.459977	0.034876	13.19	0	0.391621	0.528333
~2_BEF_MAR09	0.643955	0.025654	25.1	0	0.593675	0.694235
~2_AFT_MAR09	0.565865	0.047398	11.94	0	0.472968	0.658762
~3_BEF_MAR09	0.697306	0.02387	29.21	0	0.650522	0.744089
~3_AFT_MAR09	0.771951	0.036196	21.33	0	0.701009	0.842894
AFT_MAR09	0.628412	0.023379	26.88	0	0.58259	0.674233
Months_for~e	0.052227	0.002519	20.74	0	0.047291	0.057163
Months_for~q	-0.00166	8.32E-05	-19.92	0	-0.00182	-0.00149
Delinqintk1	-0.22609	0.024927	-9.07	0	-0.27495	-0.17724
Delinqintk2	-0.34017	0.023651	-14.38	0	-0.38653	-0.29382
Delinqintk3	-0.51752	0.024779	-20.89	0	-0.56609	-0.46895
Delinqintk4	-1.08953	0.022283	-48.89	0	-1.1332	-1.04585
Black	0.151994	0.018443	8.24	0	0.115846	0.188141
Asian	-0.13955	0.045605	-3.06	0.002	-0.22894	-0.05017
OthRace	-0.05842	0.038049	-1.54	0.125	-0.13299	0.01616
RACE_MISS	0.019815	0.03306	0.6	0.549	-0.04498	0.084612
Hispanic	-0.02046	0.02055	-1	0.319	-0.06074	0.019814
Hispanic_M~S	-0.14236	0.041671	-3.42	0.001	-0.22404	-0.06069
year03	-0.15055	0.046859	-3.21	0.001	-0.24239	-0.05871
year04	-0.1113	0.045338	-2.45	0.014	-0.20016	-0.02244
year05	-0.09295	0.042788	-2.17	0.03	-0.17682	-0.00909
year06	0.034123	0.041849	0.82	0.415	-0.0479	0.116147
year07	-0.02333	0.04281	-0.54	0.586	-0.10723	0.060578
year08	-0.24361	0.109755	-2.22	0.026	-0.45872	-0.02849
FICO_300_500	0.217942	0.070847	3.08	0.002	0.079085	0.356799
FICO_501_550	0.232724	0.027509	8.46	0	0.178808	0.28664
FICO_551_600	0.203194	0.020454	9.93	0	0.163104	0.243283
FICO_651_700	-0.36348	0.021331	-17.04	0	-0.40529	-0.32168
FICO_701_750	-0.62973	0.028469	-22.12	0	-0.68553	-0.57393
FICO_751_800	-0.77295	0.045323	-17.05	0	-0.86178	-0.68412
FICO_801_850	-1.05113	0.205427	-5.12	0	-1.45376	-0.6485
FICO_MISS	0.0632	0.021242	2.98	0.003	0.021566	0.104833
DTI_0_20	0.016557	0.046293	0.36	0.721	-0.07418	0.107289
DTI_20_30	0.107785	0.030772	3.5	0	0.047473	0.168096
DTI_40_50	0.023356	0.023644	0.99	0.323	-0.02298	0.069697
DTI_50_60	0.27539	0.027706	9.94	0	0.221087	0.329694

DTI_GT_60	-0.048	0.053267	-0.9	0.368	-0.1524	0.0564
DTI_MISS	0.373535	0.020673	18.07	0	0.333017	0.414053
CurrentInt~e	-0.13368	0.005919	-22.59	0	-0.14528	-0.12208
MrtGrdBC	0.321819	0.020524	15.68	0	0.281592	0.362045
IntTypeARM	-0.15259	0.01855	-8.23	0	-0.18895	-0.11623
IntTypeOth	-0.26807	0.071513	-3.75	0	-0.40824	-0.12791
OptionARM	0.259659	0.028242	9.19	0	0.204305	0.315013
OptionARM_~S	0.103545	0.049063	2.11	0.035	0.007383	0.199707
InvAgency	-0.02587	0.020275	-1.28	0.202	-0.06561	0.01387
InvGov	-0.81208	0.171256	-4.74	0	-1.14774	-0.47643
InvPortfolio	0.489442	0.021983	22.26	0	0.446356	0.532528
Inv_MISS	-1.53039	0.27883	-5.49	0	-2.07689	-0.9839
Jumbo	-0.09885	0.031762	-3.11	0.002	-0.1611	-0.0366
AppRtHm~0607	0.002074	0.000693	2.99	0.003	0.000716	0.003432
MrtgOrigMe~u	0.000358	9.89E-05	3.62	0	0.000164	0.000552
Unemp	-0.01533	0.00351	-4.37	0	-0.02221	-0.00845
Unemp_chg_~t	-0.00144	0.000253	-5.69	0	-0.00194	-0.00094
Hpi	-5E-05	0.000107	-0.46	0.642	-0.00026	0.00016
Hpi_chg_pct	0.009754	0.001018	9.58	0	0.007758	0.011749
LTV	0.002048	0.000274	7.49	0	0.001512	0.002585
LTVnot80	0.068769	0.020057	3.43	0.001	0.029458	0.108079
OriginalLo~u	-0.00053	7.59E-05	-7.04	0	-0.00068	-0.00039
incK	0.000172	0.000136	1.26	0.207	-9.5E-05	0.000439
_cons	-3.9267	0.101059	-38.86	0	-4.12477	-3.72863

Likelihood of Modification Cure Odds Ratios: Counseling Levels

Logistic regression	Number of obs = 1973686
	LR chi2(61) = 13165.77
	Prob > chi2 = 0.0000
Log likelihood = -119804.38	Pseudo R2 = 0.0521

Event	**Odds Ratio**	**Std. Err.**	**z**	**P>|z|**	**[95% Conf.**	**Interval]**
PRE_EC_NW_~G	0.93845	0.02527	-2.36	0.018	0.890207	0.989307
~1_BEF_MAR09	1.271355	0.029003	10.52	0	1.215763	1.32949
~1_AFT_MAR09	1.584037	0.055245	13.19	0	1.479376	1.696102
~2_BEF_MAR09	1.903996	0.048844	25.1	0	1.81063	2.002176
~2_AFT_MAR09	1.76097	0.083466	11.94	0	1.60475	1.932399
~3_BEF_MAR09	2.008335	0.047938	29.21	0	1.916542	2.104524
~3_AFT_MAR09	2.163985	0.078328	21.33	0	2.015785	2.323081
AFT_MAR09	1.87463	0.043826	26.88	0	1.790671	1.962526
Months_for~e	1.053615	0.002654	20.74	0	1.048427	1.058829
Months_for~q	0.998345	0.000083	-19.92	0	0.998182	0.998508
Delinqintk1	0.797642	0.019882	-9.07	0	0.75961	0.837579
Delinqintk2	0.711647	0.016831	-14.38	0	0.679412	0.745412
Delinqintk3	0.595996	0.014768	-20.89	0	0.567743	0.625656
Delinqintk4	0.336375	0.007496	-48.89	0	0.322	0.351392
Black	1.164153	0.02147	8.24	0	1.122823	1.207004
Asian	0.869749	0.039665	-3.06	0.002	0.79538	0.951072
OthRace	0.943258	0.03589	-1.54	0.125	0.875473	1.016291
RACE_MISS	1.020013	0.033722	0.6	0.549	0.956015	1.088295
Hispanic	0.979746	0.020133	-1	0.319	0.941069	1.020012
Hispanic_M~S	0.867305	0.036142	-3.42	0.001	0.799285	0.941115
year03	0.860236	0.04031	-3.21	0.001	0.78475	0.942984
year04	0.894673	0.040563	-2.45	0.014	0.818602	0.977814
year05	0.911235	0.03899	-2.17	0.03	0.837933	0.990951
year06	1.034712	0.043302	0.82	0.415	0.953229	1.123161
year07	0.976942	0.041823	-0.54	0.586	0.898316	1.06245
year08	0.783796	0.086025	-2.22	0.026	0.632091	0.971911
FICO_300_500	1.243515	0.088099	3.08	0.002	1.082296	1.428749
FICO_501_550	1.262033	0.034717	8.46	0	1.195791	1.331944
FICO_551_600	1.22531	0.025063	9.93	0	1.177159	1.27543
FICO_651_700	0.69525	0.014831	-17.04	0	0.666782	0.724934
FICO_701_750	0.532736	0.015166	-22.12	0	0.503825	0.563306
FICO_751_800	0.461649	0.020923	-17.05	0	0.422409	0.504534
FICO_801_850	0.349544	0.071806	-5.12	0	0.233691	0.522832
FICO_MISS	1.065239	0.022628	2.98	0.003	1.0218	1.110525
DTI_0_20	1.016695	0.047066	0.36	0.721	0.928509	1.113256
DTI_20_30	1.113808	0.034274	3.5	0	1.048618	1.18305
DTI_40_50	1.023631	0.024203	0.99	0.323	0.977277	1.072184
DTI_50_60	1.317045	0.03649	9.94	0	1.247432	1.390542
DTI_GT_60	0.953132	0.050771	-0.9	0.368	0.858641	1.058021

DTI_MISS	1.452862	0.030035	18.07	0	1.395171	1.512938
CurrentInt~e	0.874867	0.005178	-22.59	0	0.864777	0.885074
MrtGrdBC	1.379634	0.028316	15.68	0	1.325238	1.436264
IntTypeARM	0.85848	0.015925	-8.23	0	0.827829	0.890266
IntTypeOth	0.764851	0.054697	-3.75	0	0.664821	0.879932
OptionARM	1.296488	0.036616	9.19	0	1.226672	1.370277
OptionARM_~S	1.109096	0.054416	2.11	0.035	1.007411	1.221045
InvAgency	0.974464	0.019757	-1.28	0.202	0.936499	1.013967
InvGov	0.443932	0.076026	-4.74	0	0.317353	0.620997
InvPortfolio	1.631406	0.035863	22.26	0	1.562608	1.703233
Inv_MISS	0.21645	0.060353	-5.49	0	0.125319	0.373851
Jumbo	0.905876	0.028772	-3.11	0.002	0.851204	0.964061
AppRtHm~0607	1.002076	0.000694	2.99	0.003	1.000716	1.003438
MrtgOrigMe~u	1.000358	9.89E-05	3.62	0	1.000164	1.000552
Unemp	0.984783	0.003457	-4.37	0	0.978032	0.991581
Unemp_chg_~t	0.998561	0.000253	-5.69	0	0.998065	0.999056
Hpi	0.99995	0.000107	-0.46	0.642	0.999741	1.00016
Hpi_chg_pct	1.009801	0.001028	9.58	0	1.007788	1.011819
LTV	1.00205	0.000274	7.49	0	1.001513	1.002588
LTVnot80	1.071188	0.021484	3.43	0.001	1.029896	1.114135
OriginalLo~u	0.999466	7.59E-05	-7.04	0	0.999317	0.999615
incK	1.000172	0.000136	1.26	0.207	0.999905	1.000439

APPENDIX Q - LIKELIHOOD OF NON-MODIFICATION CURE MODEL

Likelihood of Non-Modification Cure Parameter Estimates: Entered Counseling

Logistic regression	Number of obs = 2141820
	LR chi2(57) = 22825.36
	Prob > chi2 = 0.0000
Log likelihood = -132922.6	Pseudo R2 = 0.0791

Event	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
PRE_EC_NW_~G	0.276553	0.019908	13.89	0	0.237534	0.315572
EC_BEF_MAR09	-0.08038	0.01824	-4.41	0	-0.11613	-0.04463
EC_AFT_MAR09	-0.10883	0.031288	-3.48	0.001	-0.17016	-0.04751
AFT_MAR09	0.349009	0.017017	20.51	0	0.315657	0.382362
Months_for~e	0.005543	0.002209	2.51	0.012	0.001212	0.009873
Months_for~q	-0.00069	0.000074	-9.26	0	-0.00083	-0.00054
Delinqintk1	-0.16988	0.022311	-7.61	0	-0.21361	-0.12615
Delinqintk2	-0.30804	0.021383	-14.41	0	-0.34995	-0.26614
Delinqintk3	-0.47303	0.022245	-21.26	0	-0.51663	-0.42943
Delinqintk4	-1.37921	0.019943	-69.16	0	-1.4183	-1.34012
Black	-0.09688	0.017982	-5.39	0	-0.13212	-0.06164
Asian	-0.126	0.045946	-2.74	0.006	-0.21605	-0.03595
OthRace	-0.15442	0.036458	-4.24	0	-0.22588	-0.08297
RACE_MISS	-0.03646	0.026969	-1.35	0.176	-0.08931	0.016402
Hispanic	-0.23876	0.021194	-11.27	0	-0.2803	-0.19722
Hispanic_M~S	0.106285	0.031569	3.37	0.001	0.044411	0.168159
year03	-0.00615	0.036451	-0.17	0.866	-0.07759	0.065293
year04	-0.06052	0.037383	-1.62	0.105	-0.13379	0.012745
year05	-0.16845	0.035662	-4.72	0	-0.23835	-0.09855
year06	-0.25677	0.035129	-7.31	0	-0.32562	-0.18792
year07	-0.36051	0.036504	-9.88	0	-0.43206	-0.28896
year08	-0.00669	0.112509	-0.06	0.953	-0.22721	0.213819
FICO_300_500	0.110331	0.067554	1.63	0.102	-0.02207	0.242734
FICO_501_550	0.091341	0.02641	3.46	0.001	0.039578	0.143105
FICO_551_600	0.027406	0.019922	1.38	0.169	-0.01164	0.066452
FICO_651_700	-0.08667	0.019348	-4.48	0	-0.1246	-0.04875
FICO_701_750	-0.29887	0.025539	-11.7	0	-0.34893	-0.24882
FICO_751_800	-0.37477	0.040615	-9.23	0	-0.45437	-0.29516
FICO_801_850	-0.50426	0.161884	-3.11	0.002	-0.82155	-0.18698
FICO_MISS	0.15287	0.019977	7.65	0	0.113715	0.192025
DTI_0_20	-0.07131	0.035856	-1.99	0.047	-0.14159	-0.00104
DTI_20_30	-0.06813	0.02604	-2.62	0.009	-0.11917	-0.01709
DTI_40_50	-0.09107	0.020355	-4.47	0	-0.13096	-0.05117
DTI_50_60	-0.19663	0.026356	-7.46	0	-0.24829	-0.14497
DTI_GT_60	0.054941	0.038786	1.42	0.157	-0.02108	0.13096
DTI_MISS	-0.36206	0.018171	-19.92	0	-0.39768	-0.32644
CurrentInt~e	-0.10986	0.005316	-20.67	0	-0.12028	-0.09944
MrtGrdBC	0.030897	0.020265	1.52	0.127	-0.00882	0.070616

IntTypeARM	0.179473	0.017294	10.38	0	0.145577	0.213369
IntTypeOth	-0.27662	0.069847	-3.96	0	-0.41352	-0.13972
OptionARM	-0.59488	0.030934	-19.23	0	-0.65551	-0.53425
OptionARM_~S	-0.10866	0.043423	-2.5	0.012	-0.19377	-0.02356
InvAgency	-0.01931	0.018746	-1.03	0.303	-0.05605	0.017434
InvGov	0.148982	0.100357	1.48	0.138	-0.04771	0.345678
InvPortfolio	-0.39594	0.024584	-16.11	0	-0.44413	-0.34776
Inv_MISS	-0.35087	0.166803	-2.1	0.035	-0.6778	-0.02395
Jumbo	0.029972	0.032152	0.93	0.351	-0.03304	0.092988
AppRtHm~0607	-0.00098	0.000644	-1.52	0.127	-0.00224	0.00028
MrtgOrigMe~u	0.000376	9.76E-05	3.85	0	0.000184	0.000567
Unemp	-0.02601	0.003712	-7.01	0	-0.03329	-0.01874
Unemp_chg_~t	-0.00964	0.00026	-37.01	0	-0.01015	-0.00913
Hpi	0.000514	8.42E-05	6.11	0	0.000349	0.000679
Hpi_chg_pct	0.026502	0.001119	23.68	0	0.024309	0.028696
LTV	-0.00648	0.000419	-15.49	0	-0.0073	-0.00566
LTVnot80	0.05684	0.019101	2.98	0.003	0.019403	0.094276
OriginalLo~u	-0.00132	7.79E-05	-16.99	0	-0.00148	-0.00117
incK	0.000804	0.00012	6.73	0	0.00057	0.001038
_cons	-1.01132	0.095588	-10.58	0	-1.19867	-0.82397

Likelihood of Non-Modification Cure Odds Ratios: Entered Counseling

Logistic regression	Number of obs = 2141820
	LR chi2(57) = 22825.36
	Prob > chi2 = 0.0000
Log likelihood = -132922.6	Pseudo R2 = 0.0791

Event	Odds Ratio	Std. Err.	z	P>|z|	[95% Conf.	Interval]
PRE_EC_NW_~G	1.318577	0.02625	13.89	0	1.268118	1.371044
EC_BEF_MAR09	0.922764	0.016831	-4.41	0	0.890359	0.956348
EC_AFT_MAR09	0.896881	0.028061	-3.48	0.001	0.843534	0.953601
AFT_MAR09	1.417662	0.024124	20.51	0	1.371159	1.465742
Months_for~e	1.005558	0.002222	2.51	0.012	1.001213	1.009922
Months_for~q	0.999315	7.39E-05	-9.26	0	0.99917	0.99946
Delinqintk1	0.843766	0.018826	-7.61	0	0.807664	0.881482
Delinqintk2	0.734882	0.015714	-14.41	0	0.704721	0.766335
Delinqintk3	0.623112	0.013861	-21.26	0	0.596529	0.65088
Delinqintk4	0.251778	0.005021	-69.16	0	0.242126	0.261814
Black	0.907665	0.016322	-5.39	0	0.876232	0.940225
Asian	0.881615	0.040507	-2.74	0.006	0.805692	0.964692
OthRace	0.856909	0.031242	-4.24	0	0.797814	0.920382
RACE_MISS	0.964201	0.026004	-1.35	0.176	0.914558	1.016538
Hispanic	0.787602	0.016693	-11.27	0	0.755555	0.821008
Hispanic_M~S	1.112139	0.035109	3.37	0.001	1.045411	1.183125
year03	0.993869	0.036228	-0.17	0.866	0.92534	1.067472
year04	0.941271	0.035187	-1.62	0.105	0.874771	1.012826
year05	0.844974	0.030133	-4.72	0	0.787931	0.906147
year06	0.773549	0.027174	-7.31	0	0.722081	0.828685
year07	0.697322	0.025455	-9.88	0	0.649174	0.749041
year08	0.993329	0.111758	-0.06	0.953	0.796756	1.238399
FICO_300_500	1.116648	0.075434	1.63	0.102	0.97817	1.274729
FICO_501_550	1.095643	0.028936	3.46	0.001	1.040372	1.153851
FICO_551_600	1.027785	0.020475	1.38	0.169	0.988428	1.068709
FICO_651_700	0.916975	0.017741	-4.48	0	0.882854	0.952415
FICO_701_750	0.741653	0.018941	-11.7	0	0.705442	0.779722
FICO_751_800	0.68745	0.027921	-9.23	0	0.634848	0.744412
FICO_801_850	0.60395	0.09777	-3.11	0.002	0.439749	0.829463
FICO_MISS	1.165173	0.023277	7.65	0	1.120433	1.2117
DTI_0_20	0.931171	0.033388	-1.99	0.047	0.867978	0.998965
DTI_20_30	0.93414	0.024325	-2.62	0.009	0.88766	0.983053
DTI_40_50	0.912956	0.018583	-4.47	0	0.877251	0.950114
DTI_50_60	0.821494	0.021651	-7.46	0	0.780136	0.865045
DTI_GT_60	1.056479	0.040976	1.42	0.157	0.979143	1.139922
DTI_MISS	0.696241	0.012652	-19.92	0	0.67188	0.721484
CurrentInt~e	0.895961	0.004763	-20.67	0	0.886674	0.905345
MrtGrdBC	1.031379	0.020901	1.52	0.127	0.991217	1.073169
IntTypeARM	1.196586	0.020694	10.38	0	1.156706	1.237841

IntTypeOth	0.758343	0.052968	-3.96	0	0.661321	0.869599
OptionARM	0.551627	0.017064	-19.23	0	0.519176	0.586106
OptionARM_~S	0.897032	0.038952	-2.5	0.012	0.823847	0.976718
InvAgency	0.980877	0.018388	-1.03	0.303	0.945492	1.017587
InvGov	1.160652	0.11648	1.48	0.138	0.953406	1.412948
InvPortfolio	0.673045	0.016546	-16.11	0	0.641384	0.706269
Inv_MISS	0.704073	0.117442	-2.1	0.035	0.507732	0.976339
Jumbo	1.030425	0.03313	0.93	0.351	0.967495	1.097448
AppRtHm~0607	0.99902	0.000643	-1.52	0.127	0.99776	1.00028
MrtgOrigMe~u	1.000376	9.77E-05	3.85	0	1.000184	1.000567
Unemp	0.974321	0.003617	-7.01	0	0.967258	0.981436
Unemp_chg_~t	0.990409	0.000258	-37.01	0	0.989903	0.990914
Hpi	1.000514	8.42E-05	6.11	0	1.000349	1.000679
Hpi_chg_pct	1.026857	0.001149	23.68	0	1.024607	1.029111
LTV	0.993538	0.000416	-15.49	0	0.992724	0.994354
LTVnot80	1.058486	0.020218	2.98	0.003	1.019593	1.098863
OriginalLo~u	0.998678	7.78E-05	-16.99	0	0.998525	0.99883
incK	1.000805	0.00012	6.73	0	1.00057	1.001039

Likelihood of Non-Modification Cure Parameter Estimates: Counseling Levels

Logistic regression	Number of obs = 2141820
	LR chi2(61) = 22833.50
	Prob > chi2 = 0.0000
Log likelihood = -132918.53	Pseudo R2 = 0.0791

Event	**Coef.**	**Std. Err.**	**z**	**P>|z|**	**[95% Conf.**	**Interval]**
PRE_EC_NW_~G	0.276166	0.019932	13.86	0	0.237101	0.315232
~1_BEF_MAR09	-0.08793	0.021453	-4.1	0	-0.12998	-0.04589
~1_AFT_MAR09	-0.0366	0.040603	-0.9	0.367	-0.11618	0.042982
~2_BEF_MAR09	-0.06309	0.028116	-2.24	0.025	-0.1182	-0.00798
~2_AFT_MAR09	-0.2007	0.067095	-2.99	0.003	-0.33221	-0.0692
~3_BEF_MAR09	-0.08095	0.025613	-3.16	0.002	-0.13115	-0.03075
~3_AFT_MAR09	-0.16982	0.050418	-3.37	0.001	-0.26863	-0.071
AFT_MAR09	0.349154	0.017018	20.52	0	0.3158	0.382508
Months_for~e	0.005572	0.002209	2.52	0.012	0.001242	0.009903
Months_for~q	-0.00069	0.000074	-9.27	0	-0.00083	-0.00054
Delinqintk1	-0.17007	0.022314	-7.62	0	-0.21381	-0.12634
Delinqintk2	-0.3083	0.021384	-14.42	0	-0.35021	-0.26639
Delinqintk3	-0.47309	0.022247	-21.26	0	-0.51669	-0.42948
Delinqintk4	-1.37897	0.019945	-69.14	0	-1.41806	-1.33988
Black	-0.096	0.018076	-5.31	0	-0.13143	-0.06057
Asian	-0.12558	0.045955	-2.73	0.006	-0.21565	-0.03551
OthRace	-0.15425	0.036481	-4.23	0	-0.22575	-0.08275
RACE_MISS	-0.03633	0.026977	-1.35	0.178	-0.08921	0.016543
Hispanic	-0.23842	0.021234	-11.23	0	-0.28003	-0.1968
Hispanic_M~S	0.106474	0.031572	3.37	0.001	0.044595	0.168353
year03	-0.00599	0.036452	-0.16	0.869	-0.07744	0.06545
year04	-0.06038	0.037384	-1.62	0.106	-0.13366	0.012888
year05	-0.16825	0.035664	-4.72	0	-0.23815	-0.09835
year06	-0.25643	0.035131	-7.3	0	-0.32529	-0.18758
year07	-0.3606	0.036507	-9.88	0	-0.43215	-0.28904
year08	-0.00869	0.112512	-0.08	0.938	-0.22921	0.211827
FICO_300_500	0.109859	0.067554	1.63	0.104	-0.02254	0.242262
FICO_501_550	0.091261	0.026411	3.46	0.001	0.039496	0.143025
FICO_551_600	0.027258	0.019922	1.37	0.171	-0.01179	0.066304
FICO_651_700	-0.08677	0.019348	-4.48	0	-0.12469	-0.04885
FICO_701_750	-0.29912	0.025541	-11.71	0	-0.34918	-0.24906
FICO_751_800	-0.37485	0.040616	-9.23	0	-0.45445	-0.29524
FICO_801_850	-0.50418	0.161887	-3.11	0.002	-0.82148	-0.18689
FICO_MISS	0.152974	0.019978	7.66	0	0.113818	0.19213
DTI_0_20	-0.07129	0.035857	-1.99	0.047	-0.14157	-0.00101
DTI_20_30	-0.06794	0.026041	-2.61	0.009	-0.11898	-0.0169
DTI_40_50	-0.09129	0.020355	-4.48	0	-0.13119	-0.0514
DTI_50_60	-0.19673	0.026356	-7.46	0	-0.24838	-0.14507
DTI_GT_60	0.054741	0.038787	1.41	0.158	-0.02128	0.130762

DTI_MISS	-0.36243	0.018174	-19.94	0	-0.39805	-0.32681
CurrentInt~e	-0.10991	0.005316	-20.67	0	-0.12033	-0.09949
MrtGrdBC	0.030611	0.020266	1.51	0.131	-0.00911	0.070331
IntTypeARM	0.179458	0.017295	10.38	0	0.145561	0.213354
IntTypeOth	-0.27667	0.069847	-3.96	0	-0.41356	-0.13977
OptionARM	-0.59477	0.030935	-19.23	0	-0.6554	-0.53414
OptionARM_~S	-0.1084	0.043424	-2.5	0.013	-0.19351	-0.02329
InvAgency	-0.01957	0.018749	-1.04	0.296	-0.05632	0.017174
InvGov	0.148459	0.100359	1.48	0.139	-0.04824	0.345159
InvPortfolio	-0.39581	0.024585	-16.1	0	-0.44399	-0.34762
Inv_MISS	-0.35253	0.166804	-2.11	0.035	-0.67946	-0.0256
Jumbo	0.029924	0.032153	0.93	0.352	-0.03309	0.092942
AppRtHm~0607	-0.00098	0.000644	-1.52	0.128	-0.00224	0.000281
MrtgOrigMe~u	0.000373	9.77E-05	3.82	0	0.000182	0.000565
Unemp	-0.02589	0.003712	-6.97	0	-0.03316	-0.01861
Unemp_chg_~t	-0.00965	0.00026	-37.04	0	-0.01016	-0.00914
Hpi	0.000513	8.42E-05	6.09	0	0.000348	0.000678
Hpi_chg_pct	0.026518	0.00112	23.68	0	0.024323	0.028713
LTV	-0.00649	0.000419	-15.5	0	-0.00731	-0.00567
LTVnot80	0.056989	0.019101	2.98	0.003	0.019551	0.094426
OriginalLo~u	-0.00132	7.79E-05	-16.99	0	-0.00148	-0.00117
incK	0.000804	0.00012	6.73	0	0.00057	0.001038
_cons	-1.01054	0.095591	-10.57	0	-1.19789	-0.82318

Likelihood of Non-Modification Cure Odds Ratios: Counseling Levels

Logistic regression	Number of obs = 2141820
	LR chi2(61) = 22833.50
	Prob > chi2 = 0.0000
Log likelihood = -132918.53	Pseudo R2 = 0.0791

Event	Odds Ratio	Std. Err.	z	P>|z|	[95% Conf.	Interval]
PRE_EC_NW_~G	1.318067	0.026272	13.86	0	1.267569	1.370577
~1_BEF_MAR09	0.915822	0.019647	-4.1	0	0.878114	0.95515
~1_AFT_MAR09	0.964063	0.039144	-0.9	0.367	0.890316	1.043919
~2_BEF_MAR09	0.93886	0.026397	-2.24	0.025	0.888522	0.992049
~2_AFT_MAR09	0.818155	0.054894	-2.99	0.003	0.717339	0.933141
~3_BEF_MAR09	0.922238	0.023622	-3.16	0.002	0.877084	0.969718
~3_AFT_MAR09	0.84382	0.042544	-3.37	0.001	0.764423	0.931464
AFT_MAR09	1.417867	0.024129	20.52	0	1.371356	1.465957
Months_for~e	1.005588	0.002222	2.52	0.012	1.001243	1.009952
Months_for~q	0.999314	7.39E-05	-9.27	0	0.99917	0.999459
Delinqintk1	0.843605	0.018824	-7.62	0	0.807505	0.881318
Delinqintk2	0.734697	0.015711	-14.42	0	0.704541	0.766144
Delinqintk3	0.623075	0.013862	-21.26	0	0.596491	0.650845
Delinqintk4	0.251838	0.005023	-69.14	0	0.242183	0.261877
Black	0.908463	0.016421	-5.31	0	0.876842	0.941225
Asian	0.881985	0.040532	-2.73	0.006	0.806017	0.965112
OthRace	0.857058	0.031267	-4.23	0	0.797916	0.920583
RACE_MISS	0.96432	0.026015	-1.35	0.178	0.914657	1.016681
Hispanic	0.787875	0.01673	-11.23	0	0.755759	0.821357
Hispanic_M~S	1.112349	0.035119	3.37	0.001	1.045604	1.183354
year03	0.994025	0.036234	-0.16	0.869	0.925486	1.06764
year04	0.941403	0.035194	-1.62	0.106	0.874891	1.012971
year05	0.845143	0.030141	-4.72	0	0.788085	0.906332
year06	0.773806	0.027185	-7.3	0	0.722318	0.828964
year07	0.697261	0.025455	-9.88	0	0.649113	0.748979
year08	0.991344	0.111539	-0.08	0.938	0.795158	1.235933
FICO_300_500	1.116121	0.075398	1.63	0.104	0.977708	1.274128
FICO_501_550	1.095555	0.028935	3.46	0.001	1.040287	1.153758
FICO_551_600	1.027632	0.020473	1.37	0.171	0.98828	1.068552
FICO_651_700	0.916889	0.01774	-4.48	0	0.88277	0.952326
FICO_701_750	0.741474	0.018938	-11.71	0	0.705269	0.779536
FICO_751_800	0.687395	0.027919	-9.23	0	0.634796	0.744352
FICO_801_850	0.603999	0.09778	-3.11	0.002	0.439782	0.829535
FICO_MISS	1.165295	0.02328	7.66	0	1.120548	1.211828
DTI_0_20	0.931194	0.03339	-1.99	0.047	0.867998	0.998991
DTI_20_30	0.934318	0.024331	-2.61	0.009	0.887827	0.983244
DTI_40_50	0.912752	0.018579	-4.48	0	0.877055	0.949903
DTI_50_60	0.821413	0.021649	-7.46	0	0.78006	0.864959
DTI_GT_60	1.056267	0.040969	1.41	0.158	0.978945	1.139696

DTI_MISS	0.695981	0.012649	-19.94	0	0.671627	0.721219
CurrentInt~e	0.895915	0.004763	-20.67	0	0.886628	0.9053
MrtGrdBC	1.031085	0.020896	1.51	0.131	0.990932	1.072864
IntTypeARM	1.196568	0.020694	10.38	0	1.156689	1.237823
IntTypeOth	0.758308	0.052966	-3.96	0	0.66129	0.86956
OptionARM	0.551688	0.017066	-19.23	0	0.519233	0.586172
OptionARM_~S	0.89727	0.038963	-2.5	0.013	0.824063	0.97698
InvAgency	0.980617	0.018386	-1.04	0.296	0.945235	1.017322
InvGov	1.160045	0.116421	1.48	0.139	0.952904	1.412214
InvPortfolio	0.673136	0.016549	-16.1	0	0.64147	0.706365
Inv_MISS	0.70291	0.117248	-2.11	0.035	0.506892	0.974727
Jumbo	1.030376	0.033129	0.93	0.352	0.967447	1.097398
AppRtHm~0607	0.99902	0.000643	-1.52	0.128	0.99776	1.000281
MrtgOrigMe~u	1.000373	9.77E-05	3.82	0	1.000182	1.000565
Unemp	0.974445	0.003617	-6.97	0	0.967381	0.98156
Unemp_chg_~t	0.9904	0.000258	-37.04	0	0.989894	0.990906
Hpi	1.000513	8.43E-05	6.09	0	1.000348	1.000678
Hpi_chg_pct	1.026872	0.00115	23.68	0	1.024621	1.029129
LTV	0.993532	0.000416	-15.5	0	0.992717	0.994347
LTVnot80	1.058644	0.020221	2.98	0.003	1.019743	1.099028
OriginalLo~u	0.998678	7.78E-05	-16.99	0	0.998525	0.99883
incK	1.000804	0.00012	6.73	0	1.00057	1.001039

APPENDIX R – CALCULATION OF CURE AND REDEFAULT GRAPHS

The following illustrates the calculations involved in generating the cumulative cure rate graphs from the regression-estimated monthly cure probabilities. A similar method is used to create cumulative redefault curves from monthly redefault probabilities.

	Never Counseled, Pre-HAMP					**Never Counseled, Post-HAMP**				
Month	Loans still in foreclosure	Probability of Cure in Month	Loans Cured During Period	Total Loans Cured	Cumulative Share of Loans Cured	Loans still in foreclosure	Probability of Cure in Month	Loans Cured During Period	Total Loans Cured	Cumulative Share of Loans Cured
1	100	0.00337	0	0	0%	100	0.00634	1	1	1%
2	100	0.00353	0	1	1%	99	0.00665	1	1	1%
3	99	0.00369	0	1	1%	99	0.00694	1	2	2%
4	99	0.00384	0	1	1%	98	0.00723	1	3	3%
5	99	0.00399	0	2	2%	97	0.00750	1	3	3%
6	98	0.00413	0	2	2%	97	0.00776	1	4	4%
7	98	0.00425	0	3	3%	96	0.00799	1	5	5%
8	97	0.00437	0	3	3%	95	0.00821	1	6	6%
9	97	0.00447	0	4	4%	94	0.00841	1	7	7%
10	96	0.00456	0	4	4%	93	0.00858	1	7	7%
11	96	0.00464	0	4	4%	93	0.00872	1	8	8%
12	96	0.00470	0	5	5%	92	0.00884	1	9	9%
etc.										

	Counseling Entry Pre-HAMP					**Counseling Entry Post-HAMP**				
Month	Loans still in foreclosure	Probability of Cure in Month	Loans Cured During Period	Total Loans Cured	Cumulative Share of Loans Cured	Loans still in foreclosure	Probability of Cure in Month	Loans Cured During Period	Total Loans Cured	Cumulative Share of Loans Cured
1	100	0.00591	1	1	1%	100	0.01243	1	1	1%
2	99	0.00620	1	1	1%	99	0.01303	1	3	3%
3	99	0.00648	1	2	2%	97	0.01360	1	4	4%
4	98	0.00674	1	3	3%	96	0.01416	1	5	5%
5	97	0.00700	1	3	3%	95	0.01469	1	7	7%
6	97	0.00724	1	4	4%	93	0.01519	1	8	8%
7	96	0.00746	1	5	5%	92	0.01565	1	9	9%
8	95	0.00766	1	5	5%	91	0.01607	1	11	11%
9	95	0.00784	1	6	6%	89	0.01645	1	12	12%
10	94	0.00800	1	7	7%	88	0.01678	1	14	14%
11	93	0.00813	1	8	8%	86	0.01705	1	15	15%
12	92	0.00824	1	8	8%	85	0.01728	1	17	17%
etc.										

APPENDIX S – FORECLOSURE COMPLETION MODELS

Foreclosure Completion Model: World With Counseling Parameter Estimates

Logistic regression		Number of obs	= 5064952
		LR chi2(56)	= 26797.95
		Prob > chi2	= 0.0000
Log likelihood = -206918.2		Pseudo R2	= 0.0608

foreclo~eted	**Coef.**	**Std. Err.**	**z**	**P>|z|**	**[95% Conf.**	**Interval]**
EC_BEF_MAR09	-0.21657	0.014426	-15.01	0	-0.24484	-0.1883
EC_AFT_MAR09	-0.56795	0.019234	-29.53	0	-0.60565	-0.53026
AFT_MAR09	0.758297	0.02061	36.79	0	0.717902	0.798691
months_si~08	0.090609	0.001775	51.04	0	0.08713	0.094089
months_sin~q	-0.00122	2.51E-05	-48.42	0	-0.00126	-0.00117
Delinqintk1	-0.11999	0.021463	-5.59	0	-0.16206	-0.07793
Delinqintk2	-0.0615	0.020652	-2.98	0.003	-0.10197	-0.02102
Delinqintk3	-0.02756	0.021218	-1.3	0.194	-0.06915	0.014023
Delinqintk4	0.170283	0.015088	11.29	0	0.140712	0.199854
Black	-0.43588	0.018457	-23.62	0	-0.47206	-0.39971
Asian	-0.00593	0.02852	-0.21	0.835	-0.06183	0.049969
OthRace	0.001837	0.02927	0.06	0.95	-0.05553	0.059206
RACE_MISS	0.018106	0.021305	0.85	0.395	-0.02365	0.059862
Hispanic	-0.18385	0.015968	-11.51	0	-0.21514	-0.15255
Hispanic_M~S	0.007864	0.031625	0.25	0.804	-0.05412	0.069848
year03	-0.02653	0.041002	-0.65	0.518	-0.1069	0.053828
year04	0.100526	0.040351	2.49	0.013	0.02144	0.179612
year05	0.192533	0.037956	5.07	0	0.118142	0.266925
year06	0.170747	0.037299	4.58	0	0.097642	0.243852
year07	0.158682	0.037722	4.21	0	0.084749	0.232615
year08	0.019676	0.084936	0.23	0.817	-0.1468	0.186148
FICO_300_500	-0.30295	0.078446	-3.86	0	-0.4567	-0.1492
FICO_501_550	-0.31576	0.028803	-10.96	0	-0.37222	-0.25931
FICO_551_600	-0.13111	0.019368	-6.77	0	-0.16907	-0.09315
FICO_651_700	0.094964	0.0156	6.09	0	0.06439	0.125539
FICO_701_750	0.228311	0.017545	13.01	0	0.193924	0.262697
FICO_751_800	0.350593	0.022543	15.55	0	0.30641	0.394776
FICO_801_850	0.567031	0.070593	8.03	0	0.428671	0.705392
FICO_MISS	-0.47956	0.020548	-23.34	0	-0.51983	-0.43928
DTI_0_20	-0.09152	0.032188	-2.84	0.004	-0.15461	-0.02844
DTI_20_30	-0.02891	0.022875	-1.26	0.206	-0.07375	0.015922
DTI_40_50	-0.04007	0.017598	-2.28	0.023	-0.07456	-0.00558
DTI_50_60	-0.35626	0.026192	-13.6	0	-0.4076	-0.30493
DTI_GT_60	0.107057	0.033178	3.23	0.001	0.04203	0.172084
DTI_MISS	0.186952	0.0156	11.98	0	0.156376	0.217527
CurrentInt~e	0.077947	0.004949	15.75	0	0.068246	0.087647
MrtGrdBC	-0.13997	0.018202	-7.69	0	-0.17565	-0.1043

IntTypeARM	-0.05922	0.014709	-4.03	0	-0.08805	-0.03039
IntTypeOth	-0.01384	0.044856	-0.31	0.758	-0.10176	0.074073
OptionARM	0.149342	0.019402	7.7	0	0.111315	0.18737
OptionARM_~S	-0.38391	0.043066	-8.91	0	-0.46832	-0.29951
InvAgency	0.109955	0.016165	6.8	0	0.078271	0.141638
InvGov	0.373205	0.085455	4.37	0	0.205716	0.540695
InvPortfolio	-0.00809	0.018768	-0.43	0.667	-0.04487	0.028699
Inv_MISS	1.150223	0.053483	21.51	0	1.045398	1.255049
Jumbo	0.120974	0.020259	5.97	0	0.081266	0.160682
AppRtHm~0607	0.000698	0.000579	1.21	0.228	-0.00044	0.001834
MrtgOrigMe~u	-0.0007	6.11E-05	-11.52	0	-0.00082	-0.00058
Unemp	0.062031	0.002329	26.63	0	0.057466	0.066597
Unemp_chg_~t	0.001212	0.000186	6.52	0	0.000848	0.001576
Hpi	0.000191	7.62E-05	2.51	0.012	0.000042	0.000341
Hpi_chg_pct	-0.00329	0.000702	-4.68	0	-0.00466	-0.00191
LTV	0.001028	0.000132	7.82	0	0.000771	0.001286
LTVnot80	0.065131	0.015003	4.34	0	0.035726	0.094537
OriginalLo~u	-0.00021	3.62E-05	-5.84	0	-0.00028	-0.00014
incK	0.000436	7.58E-05	5.75	0	0.000288	0.000584
_cons	-8.0832	0.080731	-100.13	0	-8.24143	-7.92497

Foreclosure Completion Model: World With Counseling Odds Ratios

Logistic regression	Number of obs = 5064952
	LR chi2(56) = 26797.95
	Prob > chi2 = 0.0000
Log likelihood = -206918.2	Pseudo R2= 0.0608

	Odds Ratio	Std. Err	z	P>|z|	[95% Confidence Interval]	
EC_BEF_MAR09	0.805277	0.011617	-15.01	0	0.782827	0.82837
EC_AFT_MAR09	0.566683	0.0109	-29.53	0	0.545718	0.588454
AFT_MAR09	2.134637	0.043994	36.79	0	2.050128	2.222629
months_si~08	1.094841	0.001944	51.04	0	1.091038	1.098658
months_sin~q	0.998785	2.51E-05	-48.42	0	0.998736	0.998834
Delinqintk1	0.886925	0.019036	-5.59	0	0.850389	0.92503
Delinqintk2	0.940357	0.01942	-2.98	0.003	0.903055	0.979201
Delinqintk3	0.972814	0.020641	-1.3	0.194	0.933188	1.014121
Delinqintk4	1.18564	0.017889	11.29	0	1.151093	1.221224
Black	0.646692	0.011936	-23.62	0	0.623716	0.670515
Asian	0.994087	0.028352	-0.21	0.835	0.940043	1.051238
OthRace	1.001839	0.029324	0.06	0.95	0.945983	1.060993
RACE_MISS	1.018271	0.021694	0.85	0.395	0.976627	1.06169
Hispanic	0.832062	0.013286	-11.51	0	0.806425	0.858514
Hispanic_M~S	1.007895	0.031875	0.25	0.804	0.947318	1.072346
year03	0.973814	0.039928	-0.65	0.518	0.898618	1.055303
year04	1.105752	0.044618	2.49	0.013	1.021671	1.196753
year05	1.212317	0.046014	5.07	0	1.125403	1.305943
year06	1.186191	0.044244	4.58	0	1.102568	1.276155
year07	1.171965	0.044209	4.21	0	1.088444	1.261895
year08	1.019871	0.086624	0.23	0.817	0.86347	1.204601
FICO_300_500	0.738633	0.057943	-3.86	0	0.633367	0.861394
FICO_501_550	0.729231	0.021004	-10.96	0	0.689205	0.771583
FICO_551_600	0.877119	0.016988	-6.77	0	0.844448	0.911055
FICO_651_700	1.099619	0.017154	6.09	0	1.066508	1.133759
FICO_701_750	1.256476	0.022044	13.01	0	1.214004	1.300433
FICO_751_800	1.419909	0.032009	15.55	0	1.358539	1.484052
FICO_801_850	1.763025	0.124458	8.03	0	1.535215	2.02464
FICO_MISS	0.619058	0.01272	-23.34	0	0.594623	0.644499
DTI_0_20	0.91254	0.029373	-2.84	0.004	0.856749	0.971964
DTI_20_30	0.971501	0.022223	-1.26	0.206	0.928907	1.016049
DTI_40_50	0.960723	0.016907	-2.28	0.023	0.928151	0.994438
DTI_50_60	0.700289	0.018342	-13.6	0	0.665248	0.737177
DTI_GT_60	1.112998	0.036927	3.23	0.001	1.042925	1.187778
DTI_MISS	1.205569	0.018807	11.98	0	1.169266	1.242999
CurrentInt~e	1.081065	0.00535	15.75	0	1.070629	1.091603

MrtGrdBC	0.869382	0.015825	-7.69	0	0.838913	0.900958
IntTypeARM	0.942502	0.013863	-4.03	0	0.915719	0.970069
IntTypeOth	0.986252	0.044239	-0.31	0.758	0.903247	1.076885
OptionARM	1.16107	0.022528	7.7	0	1.117746	1.206074
OptionARM_~S	0.68119	0.029336	-8.91	0	0.626052	0.741183
InvAgency	1.116227	0.018044	6.8	0	1.081416	1.15216
InvGov	1.452383	0.124114	4.37	0	1.228405	1.717199
InvPortfolio	0.991946	0.018617	-0.43	0.667	0.95612	1.029115
Inv_MISS	3.158899	0.168949	21.51	0	2.84453	3.50801
Jumbo	1.128595	0.022865	5.97	0	1.08466	1.174311
AppRtHm~0607	1.000698	0.00058	1.21	0.228	0.999563	1.001836
MrtgOrigMe~u	0.999296	6.11E-05	-11.52	0	0.999176	0.999416
Unemp	1.063996	0.002479	26.63	0	1.059149	1.068865
Unemp_chg_~t	1.001213	0.000186	6.52	0	1.000848	1.001578
Hpi	1.000191	7.63E-05	2.51	0.012	1.000042	1.000341
Hpi_chg_pct	0.996719	0.0007	-4.68	0	0.995348	0.998092
LTV	1.001029	0.000132	7.82	0	1.000771	1.001287
LTVnot80	1.067299	0.016013	4.34	0	1.036372	1.099149
OriginalLo~u	0.999789	3.62E-05	-5.84	0	0.999718	0.99986
incK	1.000436	7.58E-05	5.75	0	1.000287	1.000585

Foreclosure Completion Model: World Without Counseling Parameter Estimates

Logistic regression	Number of obs = 3056113
	LR chi2(54) = 26177.41
	Prob > chi2 = 0.0000
Log likelihood = -107805.6	Pseudo R2 = 0.1083

foreclo~eted	**Coef.**	**Std. Err.**	**z**	**P>|z|**	**[95% Conf.**	**Interval]**
AFT_MAR09	1.186679	0.026256	45.2	0	1.135218	1.23814
months_si~08	0.093932	0.00216	43.49	0	0.089699	0.098165
months_sin~q	-0.00131	2.89E-05	-45.18	0	-0.00136	-0.00125
Delinqintk1	-0.14527	0.029737	-4.89	0	-0.20356	-0.08699
Delinqintk2	-0.07827	0.029636	-2.64	0.008	-0.13636	-0.02018
Delinqintk3	0.006153	0.030641	0.2	0.841	-0.0539	0.066208
Delinqintk4	0.436227	0.020585	21.19	0	0.395881	0.476572
Black	-0.4797	0.031558	-15.2	0	-0.54155	-0.41785
Asian	-0.03664	0.045242	-0.81	0.418	-0.12531	0.052032
OthRace	0.024222	0.052987	0.46	0.648	-0.07963	0.128074
RACE_MISS	0.016922	0.023856	0.71	0.478	-0.02984	0.063679
Hispanic	-0.21746	0.027005	-8.05	0	-0.27039	-0.16453
Hispanic_M~S	0.622777	0.073637	8.46	0	0.478451	0.767103
year03	-0.0098	0.060312	-0.16	0.871	-0.12801	0.108407
year04	0.699403	0.086531	8.08	0	0.529806	0.869001
year05	0.827521	0.084426	9.8	0	0.662049	0.992993
year06	0.798682	0.083812	9.53	0	0.634413	0.962951
year07	0.764152	0.084169	9.08	0	0.599183	0.929121
year08	0.539973	0.12576	4.29	0	0.293488	0.786458
FICO_300_500	-0.33854	0.109095	-3.1	0.002	-0.55237	-0.12472
FICO_501_550	-0.33034	0.040565	-8.14	0	-0.40984	-0.25083
FICO_551_600	-0.1085	0.026096	-4.16	0	-0.15965	-0.05735
FICO_651_700	0.078421	0.021021	3.73	0	0.037221	0.119622
FICO_701_750	0.201721	0.023935	8.43	0	0.154809	0.248633
FICO_751_800	0.30491	0.030569	9.97	0	0.244996	0.364823
FICO_801_850	0.470224	0.093642	5.02	0	0.286689	0.65376
FICO_MISS	-0.64645	0.029585	-21.85	0	-0.70444	-0.58846
DTI_0_20	-0.10387	0.039189	-2.65	0.008	-0.18067	-0.02706
DTI_20_30	-0.02932	0.029538	-0.99	0.321	-0.08722	0.02857
DTI_40_50	-0.04185	0.024067	-1.74	0.082	-0.08902	0.005321
DTI_50_60	-0.29386	0.035159	-8.36	0	-0.36277	-0.22495
DTI_GT_60	0.210575	0.040237	5.23	0	0.131711	0.289439
DTI_MISS	0.155014	0.021603	7.18	0	0.112672	0.197356
CurrentInt~e	0.097542	0.006703	14.55	0	0.084405	0.11068
MrtGrdBC	0.051677	0.026659	1.94	0.053	-0.00057	0.103928
IntTypeARM	-0.06749	0.021282	-3.17	0.002	-0.1092	-0.02578

IntTypeOth	0.082259	0.066961	1.23	0.219	-0.04898	0.2135
OptionARM	0.128973	0.025562	5.05	0	0.078873	0.179072
OptionARM_~S	-0.3689	0.053967	-6.84	0	-0.47467	-0.26312
InvAgency	0.151397	0.023794	6.36	0	0.104761	0.198033
InvGov	0.427732	0.135195	3.16	0.002	0.162754	0.692709
InvPortfolio	-0.02521	0.024093	-1.05	0.295	-0.07243	0.022013
Inv_MISS	0.912571	0.071076	12.84	0	0.773264	1.051878
Jumbo	0.05099	0.027075	1.88	0.06	-0.00208	0.104055
AppRtHm~0607	0.00492	0.000824	5.97	0	0.003304	0.006535
MrtgOrigMe~u	-0.00058	7.15E-05	-8.16	0	-0.00072	-0.00044
Unemp	0.07282	0.003149	23.13	0	0.066649	0.078992
Unemp_chg_~t	0.001778	0.000253	7.04	0	0.001283	0.002274
Hpi	0.000443	0.000086	5.15	0	0.000275	0.000612
Hpi_chg_pct	-0.00473	0.000988	-4.79	0	-0.00667	-0.00279
LTV	0.000979	0.000143	6.86	0	0.0007	0.001259
LTVnot80	0.089774	0.022187	4.05	0	0.046287	0.13326
OriginalLo~u	-0.00016	0.000039	-4.22	0	-0.00024	-8.8E-05
incK	0.000492	8.66E-05	5.68	0	0.000322	0.000662
_cons	-9.8617	0.128849	-76.54	0	-10.1142	-9.60916

Foreclosure Completion Model: World Without Counseling Odds Ratios

Logistic regression		Number of obs	= 3056113
		LR chi2(54)	= 26177.41
		Prob > chi2	= 0.0000
Log likelihood = -107805.6		Pseudo R2	= 0.1083

foreclo~eted	Odds Ratio	Std. Err.	z	P> |z|	[95% Conf.	Interval]
AFT_MAR09	3.276183	0.086019	45.2	0	3.111852	3.449191
months_si~08	1.098485	0.002373	43.49	0	1.093845	1.103145
months_sin~q	0.9986934	2.89E-05	-45.18	0	0.998637	0.99875
Delinqintk1	0.8647866	0.025716	-4.89	0	0.815825	0.916687
Delinqintk2	0.9247143	0.027405	-2.64	0.008	0.872532	0.980018
Delinqintk3	1.006172	0.03083	0.2	0.841	0.947525	1.068449
Delinqintk4	1.546859	0.031842	21.19	0	1.485693	1.610543
Black	0.6189695	0.019534	-15.2	0	0.581845	0.658463
Asian	0.9640229	0.043614	-0.81	0.418	0.882221	1.05341
OthRace	1.024518	0.054286	0.46	0.648	0.923459	1.136637
RACE_MISS	1.017065	0.024263	0.71	0.478	0.970605	1.06575
Hispanic	0.8045574	0.021727	-8.05	0	0.76308	0.848289
Hispanic_M~S	1.864097	0.137267	8.46	0	1.613573	2.153518
year03	0.9902466	0.059723	-0.16	0.871	0.879845	1.114502
year04	2.012551	0.174148	8.08	0	1.698602	2.384528
year05	2.28764	0.193137	9.8	0	1.93876	2.699301
year06	2.22261	0.186282	9.53	0	1.885916	2.619415
year07	2.147173	0.180726	9.08	0	1.820631	2.532282
year08	1.71596	0.215799	4.29	0	1.341096	2.195606
FICO_300_500	0.7128074	0.077764	-3.1	0.002	0.575586	0.882743
FICO_501_550	0.7186801	0.029153	-8.14	0	0.663754	0.778152
FICO_551_600	0.8971783	0.023412	-4.16	0	0.852445	0.94426
FICO_651_700	1.081578	0.022736	3.73	0	1.037922	1.127071
FICO_701_750	1.223506	0.029285	8.43	0	1.167435	1.282271
FICO_751_800	1.356502	0.041467	9.97	0	1.277616	1.440259
FICO_801_850	1.600353	0.149861	5.02	0	1.33201	1.922757
FICO_MISS	0.5239024	0.0155	-21.85	0	0.494387	0.555179
DTI_0_20	0.9013454	0.035323	-2.65	0.008	0.834707	0.973304
DTI_20_30	0.9711015	0.028685	-0.99	0.321	0.916477	1.028982
DTI_40_50	0.9590149	0.02308	-1.74	0.082	0.914829	1.005335
DTI_50_60	0.7453833	0.026207	-8.36	0	0.695749	0.798559
DTI_GT_60	1.234387	0.049669	5.23	0	1.140779	1.335677
DTI_MISS	1.167674	0.025226	7.18	0	1.119265	1.218177
CurrentInt~e	1.102458	0.00739	14.55	0	1.088069	1.117037
MrtGrdBC	1.053035	0.028073	1.94	0.053	0.999425	1.109521
IntTypeARM	0.9347377	0.019893	-3.17	0.002	0.89655	0.974552

IntTypeOth	1.085737	0.072702	1.23	0.219	0.952198	1.238003
OptionARM	1.137659	0.02908	5.05	0	1.082067	1.196107
OptionARM_~S	0.6914967	0.037318	-6.84	0	0.622091	0.768646
InvAgency	1.163458	0.027684	6.36	0	1.110445	1.219002
InvGov	1.533774	0.207359	3.16	0.002	1.176747	1.999123
InvPortfolio	0.9751059	0.023493	-1.05	0.295	0.93013	1.022257
Inv_MISS	2.490718	0.177031	12.84	0	2.166828	2.863023
Jumbo	1.052312	0.028491	1.88	0.06	0.997926	1.109662
AppRtHm~0607	1.004932	0.000828	5.97	0	1.00331	1.006556
MrtgOrigMe~u	0.9994173	7.14E-05	-8.16	0	0.999277	0.999557
Unemp	1.075537	0.003387	23.13	0	1.06892	1.082196
Unemp_chg_~t	1.00178	0.000253	7.04	0	1.001284	1.002276
Hpi	1.000443	0.000086	5.15	0	1.000275	1.000612
Hpi_chg_pct	0.9952825	0.000983	-4.79	0	0.993357	0.997212
LTV	1.00098	0.000143	6.86	0	1.0007	1.00126
LTVnot80	1.093927	0.024271	4.05	0	1.047375	1.142547
OriginalLo~u	0.9998354	0.000039	-4.22	0	0.999759	0.999912
incK	1.000492	8.67E-05	5.68	0	1.000322	1.000662